



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

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

2019/20 INTERIM REPORT






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

 This interim report is printed on environmentally friendly paper.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Kwan Man Fai (Chairman & Managing Director)
Wang Xiangfei (with Wong Sze Wai as alternate)
Wong Sze Wai

Independent Non-executive Directors

Wong Man Hin Raymond
Chan Yiu Fai Youdey
Pak Wai Keung Martin

AUDIT COMMITTEE

Pak Wai Keung Martin (Chairman)
Wong Man Hin Raymond
Chan Yiu Fai Youdey

REMUNERATION COMMITTEE

Wong Man Hin Raymond (Chairman)
Kwan Man Fai
Wong Sze Wai (appointed as a member of
remuneration committee on 20 June 2019)
Chan Yiu Fai Youdey
Pak Wai Keung Martin

NOMINATION COMMITTEE

Kwan Man Fai (Chairman)
Wong Man Hin Raymond
Chan Yiu Fai Youdey
Pak Wai Keung Martin

COMPANY SECRETARY

Li Chun Fung

AUDITOR

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

LEGAL ADVISER

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

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
4th floor North Cedar House
41 Cedar Avenue
Hamilton HM12, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG STOCK EXCHANGE STOCK CODE

1229

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INDEPENDENT AUDITOR'S REVIEW REPORT



MAZARS CPA LIMITED
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REVIEW REPORT TO THE BOARD OF DIRECTORS OF NAN NAN RESOURCES ENTERPRISE LIMITED

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 4 to 41 which comprises the condensed consolidated statement of financial position of Nan Nan Resources Enterprise Limited (the “Company”) and its subsidiaries (together the “Group”) as at 30 September 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The directors of the Company are responsible for the preparation and presentation of the interim financial information in accordance with HKAS 34.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Mazars CPA Limited

Certified Public Accountants

Hong Kong, 20 November 2019

She Shing Pang

Practising Certificate number: P05510

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

| | Notes | Six months ended 30 September | |
|---|-------|----------------------------------|---------------------------------|
| | | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Revenue | 4 | 63,665 | 16,079 |
| Cost of services and goods sold | | (33,206) | (11,824) |
| Gross profit | | 30,459 | 4,255 |
| Other revenue | | 3,473 | 5,836 |
| Selling and distribution expenses | | (185) | (183) |
| Administrative and other operating expenses | | (19,513) | (12,221) |
| Exchange loss, net | | (4,900) | (6,971) |
| Finance costs | 6 | (2,758) | – |
| Change in fair value of contingent consideration receivables | 12 | 1,234 | – |
| Change in fair value of convertible bond designated as financial liabilities at fair value through profit or loss (“FVPL”) | 17 | 28,484 | 44,148 |
| Profit before tax | | 36,294 | 34,864 |
| Income tax expenses | 5 | (3,869) | (291) |
| Profit for the period | 6 | 32,425 | 34,573 |
| Other comprehensive loss | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange difference on translation of functional currency to presentation currency | | (8,406) | (15,421) |
| Other comprehensive loss for the period (net of nil tax) | | (8,406) | (15,421) |
| Total comprehensive income for the period | | 24,019 | 19,152 |
| Profit/(Loss) for the period attributable to: | | | |
| – Owners of the Company | | 32,973 | 34,573 |
| – Non-controlling interests | | (548) | – |
| | | 32,425 | 34,573 |
| Total comprehensive income/(loss) for the period attributable to: | | | |
| – Owners of the Company | | 24,061 | 19,152 |
| – Non-controlling interests | | (42) | – |
| | | 24,019 | 19,152 |
| Earnings per share (expressed in Hong Kong cents) | | | |
| – Basic | 8 | 4.31 | 4.52 |
| – Diluted | 8 | 0.82 | 0.61 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

| | Notes | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|--|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 89,209 | 51,370 |
| Intangible assets | 10 | 14,809 | 18,505 |
| Goodwill | 11 | 28,377 | 4,229 |
| Security deposit | | 5,241 | 5,506 |
| Non-refundable deposits | 13 | 2,315 | 2,431 |
| Prepayments for acquisition of property, plant and equipment | 13 | 1,252 | 19,635 |
| Deferred tax assets | | 1,884 | 2,009 |
| Contingent consideration receivables | 12 | 6,598 | – |
| | | 149,685 | 103,685 |
| Current assets | | | |
| Inventories | | 9,330 | 7,573 |
| Financial assets measured at FVPL | | – | 60,236 |
| Trade and other receivables | 13 | 14,758 | 8,224 |
| Restricted bank balances | 14 | 73,888 | 77,612 |
| Cash and cash equivalents | | 312,385 | 278,814 |
| | | 410,361 | 432,459 |
| Current liabilities | | | |
| Convertible bond designated as financial liabilities at FVPL | 17 | 189,385 | 217,869 |
| Trade and other payables | 15 | 75,547 | 58,794 |
| Interest-bearing borrowings | 16 | 67,302 | 68,345 |
| Promissory notes | 18 | 2,310 | – |
| Lease liabilities | 19 | 1,796 | – |
| Tax payables | | 5,930 | 3,196 |
| | | 342,270 | 348,204 |
| Net current assets | | 68,091 | 84,255 |
| Total assets less current liabilities | | 217,776 | 187,940 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 September 2019

| | Notes | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|---|-------|---|---|
| Capital and reserves | | | |
| Share capital | 20 | 76,537 | 76,537 |
| Reserves | | 131,711 | 107,102 |
| Equity attributable to owners of the Company | | 208,248 | 183,639 |
| Non-controlling interests | | 1,284 | 1,044 |
| | | 209,532 | 184,683 |
| Non-current liabilities | | | |
| Provision for close down, restoration and environmental costs | | 2,733 | 2,870 |
| Promissory notes | 18 | 2,164 | – |
| Lease liabilities | 19 | 2,221 | – |
| Deferred tax liabilities | | 1,126 | 387 |
| | | 8,244 | 3,257 |
| | | 217,776 | 187,940 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019

| | Attributable to owners of the Company | | | | | | | Total HK\$'000 | Non- controlling interests HK\$'000 | Total equity HK\$'000 |
|---|---------------------------------------|--|---|---|---|--|-----------------------------------|-------------------|--|-----------------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 (Note i) | Capital reserve HK\$'000 (Note ii) | Statutory reserves HK\$'000 (Note iii) | Exchange translation reserve HK\$'000 (Note iv) | Special reserve HK\$'000 (Note v) | Accumulated losses HK\$'000 | | | |
| As at 1 April 2019 (audited) | 76,537 | 191,534 | 14,882 | 22,986 | 9,190 | 27,143 | (158,633) | 183,639 | 1,044 | 184,683 |
| Profit for the period | - | - | - | - | - | - | 32,973 | 32,973 | (548) | 32,425 |
| Total other comprehensive loss: | | | | | | | | | | |
| <i>Items that maybe reclassified subsequently to profit or loss</i> | | | | | | | | | | |
| Exchange difference on translation of functional currency to presentation currency | - | - | - | - | (8,364) | - | - | (8,364) | (42) | (8,406) |
| Total comprehensive income for the period | - | - | - | - | (8,364) | - | 32,973 | 24,609 | (590) | 24,019 |
| Transactions with owners: | | | | | | | | | | |
| <i>Contributions and distributions</i> | | | | | | | | | | |
| Appropriation of maintenance and production funds | - | - | - | 16,633 | - | - | (16,633) | - | - | - |
| Utilisation of maintenance and production funds | - | - | - | (16,633) | - | - | 16,633 | - | - | - |
| Dividends paid to non-controlling interest | - | - | - | - | - | - | - | - | (1,010) | (1,010) |
| | - | - | - | - | - | - | - | - | (1,010) | (1,010) |
| <i>Changes in ownership interests</i> | | | | | | | | | | |
| Non-controlling interests arising from acquisition of subsidiaries (Note 23) | - | - | - | - | - | - | - | - | 1,840 | 1,840 |
| As at 30 September 2019 (unaudited) | 76,537 | 191,534 | 14,882 | 22,986 | 826 | 27,143 | (125,660) | 208,248 | 1,284 | 209,532 |
| As at 1 April 2018 (audited) | 76,537 | 191,534 | 14,882 | 20,424 | 20,110 | 27,143 | (184,914) | 165,716 | - | 165,716 |
| Profit for the period | - | - | - | - | - | - | 34,573 | 34,573 | - | 34,573 |
| Total other comprehensive loss: | | | | | | | | | | |
| <i>Items that maybe reclassified subsequently to profit or loss</i> | | | | | | | | | | |
| Exchange difference on translation of functional currency to presentation currency | - | - | - | - | (15,421) | - | - | (15,421) | - | (15,421) |
| Total comprehensive income for the period | - | - | - | - | (15,421) | - | 34,573 | 19,152 | - | 19,152 |
| Transactions with owners: | | | | | | | | | | |
| <i>Contributions and distributions</i> | | | | | | | | | | |
| Appropriation of maintenance and production funds | - | - | - | 10,625 | - | - | (10,625) | - | - | - |
| Utilisation of maintenance and production funds | - | - | - | (10,625) | - | - | 10,625 | - | - | - |
| | - | - | - | - | - | - | - | - | - | - |
| As at 30 September 2018 (unaudited) | 76,537 | 191,534 | 14,882 | 20,424 | 4,689 | 27,143 | (150,341) | 184,868 | - | 184,868 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 September 2019

Notes:

(i) Share premium

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

(ii) Capital reserve

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

(iii) Statutory reserves

Statutory surplus reserve

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

Specific reserve for maintenance and production funds

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

(iv) Exchange translation reserve

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

(v) Special reserve

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

| | Notes | Six months ended 30 September | |
|--|-------|----------------------------------|---------------------------------|
| | | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Operating activities | | | |
| Cash generated from/(used in) operations | | 42,950 | (2,731) |
| Interest paid | | (2,648) | – |
| Income tax paid | | (1,234) | (5,385) |
| Net cash generated from/(used in) operating activities | | 39,068 | (8,116) |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (20,528) | (1,852) |
| Deposits paid for acquisition of subsidiaries | | – | (2,500) |
| Net cash outflow upon acquisition of subsidiaries | 23 | (24,494) | – |
| Redemption of financial assets measured at FVPL | | 57,345 | – |
| Prepayments for acquisition of property, plant and equipment | | (1,087) | (28,349) |
| Repayment of promissory note | | (2,400) | – |
| Interest received | | 1,188 | 1,722 |
| Net cash generated from/(used in) investing activities | | 10,024 | (30,979) |
| Financing activities | | | |
| Inception of interest-bearing borrowings | | – | 68,031 |
| Repayment of interest-bearing borrowings | | (1,826) | – |
| Increase in restricted bank balances | | – | (75,968) |
| Repayment of lease liabilities | | (480) | – |
| Net cash used in financing activities | | (2,306) | (7,937) |
| Net increase/(decrease) in cash and cash equivalents | | 46,786 | (47,032) |
| Cash and cash equivalents as at 1 April | | 278,814 | 440,437 |
| Effect on foreign exchange rate changes | | (13,215) | (37,846) |
| Cash and cash equivalents as at 30 September, represented by bank balances and cash | | 312,385 | 355,559 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2019

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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

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

The Company is an investment holding company and the subsidiaries of the Company (together the “Group”) are principally engaged in (i) mining and sales of coal; (ii) renewable energy solution; and (iii) provision of information technology outsourcing, consultancy and technical services.

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

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

The condensed consolidated interim financial information includes an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 March 2019, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA. They shall be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 March 2019 (the “2018/2019 Audited Financial Statements”).

In preparing these condensed consolidated interim financial information, significant judgements made by the directors of the Company in applying the Group’s accounting policies and the key sources of estimation uncertainty are the same as those that applied in the 2018/2019 Audited Financial Statements.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30 September 2019 are consistent with those followed in the preparation of the 2018/2019 Audited Financial Statements.

In the current interim period, the Group has applied the following new/revised HKFRSs issued by the HKICPA.

| | |
|-------------------------------|---|
| Annual Improvements to HKFRSs | <i>2015-2017 Cycle</i> |
| HKFRS 16 | <i>Leases</i> |
| HK(IFRIC)-Int 23 | <i>Uncertainty over Income Tax Treatments</i> |
| Amendments to HKAS 19 | <i>Employee Benefits</i> |
| Amendments to HKAS 28 | <i>Investments in Associates and Joint Ventures</i> |
| Amendments to HKFRS 9 | <i>Prepayment Features with Negative Compensation</i> |

Apart from the impact on adoption of HKFRS 16 as set out below, the adoption of those new/revised HKFRSs has no material impact on the Group's results and financial position for the current or prior periods and does not result in any significant change in accounting policies of the Group.

HKFRS 16 “Leases”

The Group has adopted HKFRS 16, which replaced HKAS 17, and the related consequential amendments to other HKFRSs for the six months ended 30 September 2019 which resulted in changes in accounting policies.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease rental expenses were recognised in profit or loss over the lease period on a straight-line basis.

On adoption of HKFRS 16, the Group recognised long-term lease liabilities in relation to leases of certain properties which had previously been classified as operating leases. The Group did not reassess if a contract was or contained a lease at adoption. These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of respective entities. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to profit or loss in the period in which it is incurred on the basis that produces a constant periodic rate of interest on the remaining lease liabilities balance.

At the inception of a contract that contains a lease component, as a lessee, the Group allocated the consideration in the contract to each lease component on the basis of their relative stand-alone-price. The Group, as a lessee assessed its leases for non-lease components and separated non-lease components from lease components for certain classes of assets if the non-lease components were material.

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the condensed consolidated statements of financial position immediately before the date of initial application. The right-of-use assets were recognised in the unaudited condensed consolidated statements of financial position.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

HKFRS 16 “ Leases” (Continued)

Depreciation was charged to profit or loss on a straight-line basis over the shorter of the assets useful lives or over the unexpired term of lease.

Payments associated with short-term leases or leases of low-value assets are recognised on a straight-line basis over the lease term as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The following table reconciles the adjustments made to the carrying amounts recognised in relation to the operating lease commitments in the condensed consolidated statement of financial position at the date of initial application of HKFRS 16 on 1 April 2019:

| | Carrying amounts on 31 March 2019 under HKAS 17 HK\$'000 | Adjustments HK\$'000 | Carrying amounts on 1 April 2019 Under HKFRS 16 HK\$'000 |
|---|---|-------------------------|---|
| Non-current assets | | | |
| Right-of-use assets, presented in property, plant and equipment | – | 2,339 | 2,339 |
| Current liabilities | | | |
| Lease liabilities | – | 708 | 708 |
| Non-current liabilities | | | |
| Lease liabilities | – | 1,631 | 1,631 |

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate as at 1 April 2019. The weighted average discount rates applied are ranging from 5.39% to 5.91%.

| | HK\$'000 |
|--|----------|
| Operating lease commitments as at 31 March 2019 in relation to long-term leased properties | 2,936 |
| Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 March 2020 | (386) |
| Less: Future interest expenses | (211) |
| Lease liabilities recognised as at 1 April 2019 | 2,339 |

As at the date of authorisation of the condensed consolidated interim financial information, the Group has not early adopted the new/revised HKFRSs that have been issued but are not yet effective.

3. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being identified as the chief operating decision makers (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or services rendered. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable and operating segments are as follows:

- (1) coal mining business segment: mining and sales of coals in the People’s Republic of China (the “Mainland China”);
- (2) renewable energy business segment: service income from renewable energy services in Malaysia;
- (3) IT services business segment: information technology consultancy and technical services (including sales of hardware products) and information technology outsourcing services in Hong Kong, Malaysia, Singapore and United Kingdom.

Segment revenue and results

Segment revenue represents revenue derived from (i) coal mining business; (ii) renewable energy business; and (iii) IT services business.

Segment results, which are the measures reported to the CODM for the purposes of resources allocation and assessment of segment performance, represent the gross profit earned or loss incurred by each segment after allocation of other profit or loss items that attributable to the relevant segment.

Segment assets include property, plant and equipment, intangible assets, goodwill, security deposit, deferred tax assets, contingent consideration receivables, inventories, financial assets measured at FVPL, trade and other receivables, restricted bank balances and cash and cash equivalents. All assets are allocated to operating segments other than unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities include convertible bond designated as financial liabilities at FVPL, trade and other payables, interest-bearing borrowings, lease liabilities, tax payables, provision for close down, restoration and environmental costs and deferred tax liabilities. All liabilities are allocated to operating segments other than unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

In addition, the directors of the Company consider that the Group’s place of domicile is Hong Kong, where the central management and control is located.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

3. SEGMENT INFORMATION (Continued) Segment revenue and results (Continued)

The followings are analysis of the Group's revenue and results by reportable and operating segments:

| | Coal mining business HK\$'000 | Renewable energy business HK\$'000 | IT services business HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|--|--|---|--|-------------------------|-------------------|
| Six months ended 30 September 2019 (unaudited) | | | | | |
| Revenue from external customers and reportable segment revenue | 38,166 | 388 | 25,111 | - | 63,665 |
| Gross profit | 25,159 | 303 | 4,997 | - | 30,459 |
| Other revenue | 2,800 | - | 145 | 528 | 3,473 |
| Selling and distribution expenses | (185) | - | - | - | (185) |
| Administrative and other operating expenses | (6,430) | (357) | (2,123) | (10,603) | (19,513) |
| Finance costs | (2,412) | - | (279) | (67) | (2,758) |
| Change in fair value of contingent consideration receivables | - | - | - | 1,234 | 1,234 |
| Change in fair value of convertible bond designated as financial liabilities at FVPL | - | - | - | 28,484 | 28,484 |
| Exchange loss, net | - | - | - | (4,900) | (4,900) |
| Profit/(Loss) before tax | 18,932 | (54) | 2,740 | 14,676 | 36,294 |
| Income tax expenses/(credit) | (3,863) | 15 | (21) | - | (3,869) |
| Segment results | 15,069 | (39) | 2,719 | 14,676 | 32,425 |
| <i>Additional segment information:</i> | | | | | |
| Amortisation | 2,908 | 38 | - | - | 2,946 |
| Depreciation | 1,840 | 115 | 237 | 540 | 2,732 |
| Additions to property, plant and equipment | 29,507 | 9,025 | 1,315 | 821 | 40,668 |

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

For the six months ended 30 September 2019

3. SEGMENT INFORMATION (Continued) Segment revenue and results (Continued)

| | Coal mining business HK\$'000 | Renewable energy business HK\$'000 | IT services business HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|--|--|---|--|-------------------------|-------------------|
| Six months ended 30 September 2018 (unaudited) | | | | | |
| Revenue from external customers and reportable segment revenue | 16,079 | - | - | - | 16,079 |
| Gross profit | 4,255 | - | - | - | 4,255 |
| Other revenue | 5,836 | - | - | - | 5,836 |
| Selling and distribution expenses | (183) | - | - | - | (183) |
| Administrative and other operating expenses | (5,285) | - | - | (6,936) | (12,221) |
| Change in fair value of convertible bond designated as financial liabilities at FVPL | - | - | - | 44,148 | 44,148 |
| Exchange loss, net | - | - | - | (6,971) | (6,971) |
| Profit before tax | 4,623 | - | - | 30,241 | 34,864 |
| Income tax expenses | (291) | - | - | - | (291) |
| Segment results | 4,332 | - | - | 30,241 | 34,573 |
| <i>Additional segment information:</i> | | | | | |
| Amortisation | 1,865 | - | - | - | 1,865 |
| Depreciation | 1,080 | - | - | 36 | 1,116 |
| Additions to property, plant and equipment | 1,627 | - | - | 225 | 1,852 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

3. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The followings are analysis of the Group's assets and liabilities by reportable and operating segments:

| | Coal mining business HK\$'000 | Renewable energy business HK\$'000 | IT services business HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|--|--|---|--|-------------------------|-------------------|
| As at 30 September 2019 (unaudited) | | | | | |
| Property, plant and equipment | 70,341 | 14,293 | 1,668 | 2,907 | 89,209 |
| Intangible assets | 13,255 | 1,554 | - | - | 14,809 |
| Goodwill | - | 4,229 | 24,148 | - | 28,377 |
| Contingent consideration receivables | - | - | - | 6,598 | 6,598 |
| Other assets | 325,306 | 689 | 16,392 | 78,666 | 421,053 |
| Total assets | 408,902 | 20,765 | 42,208 | 88,171 | 560,046 |
| Convertible bond designated as financial liabilities at FVPL | - | - | - | (189,385) | (189,385) |
| Other liabilities | (146,455) | (445) | (5,544) | (8,685) | (161,129) |
| Total liabilities | (146,455) | (445) | (5,544) | (198,070) | (350,514) |
| As at 31 March 2019 (audited) | | | | | |
| Property, plant and equipment | 45,507 | 5,618 | - | 245 | 51,370 |
| Intangible assets | 16,913 | 1,592 | - | - | 18,505 |
| Goodwill | - | 4,229 | - | - | 4,229 |
| Other assets | 327,299 | 1,340 | - | 133,401 | 462,040 |
| Total assets | 389,719 | 12,779 | - | 133,646 | 536,144 |
| Convertible bond designated as financial liabilities at FVPL | - | - | - | (217,869) | (217,869) |
| Other liabilities | (129,435) | (1,084) | - | (3,073) | (133,592) |
| Total liabilities | (129,435) | (1,084) | - | (220,942) | (351,461) |

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, goodwill, non-refundable deposits and prepayments for acquisition of property, plant and equipment ("Specified Non-current Assets"). The geographical location of the revenue is presented based on the location of the customers. The geographical location of the Specified Non-current Assets is presented based on the physical location of the assets or the location of operation.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

3. SEGMENT INFORMATION (Continued)

Location of revenue

Revenue from external customers

| | Six months ended 30 September | |
|--------------------|----------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| The Mainland China | 38,166 | 16,079 |
| Hong Kong | 13,369 | – |
| Malaysia | 8,445 | – |
| Singapore | 2,071 | – |
| United Kingdom | 1,614 | – |
| | 63,665 | 16,079 |

Location of the Specified Non-current Assets

| | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|--------------------|---|---|
| The Mainland China | 87,163 | 84,486 |
| Hong Kong | 34,500 | – |
| Malaysia | 14,300 | 11,439 |
| | 135,963 | 95,925 |

Information about major customers

Revenue from external customers contributing 10% or more of the total revenue is as follow:

| | Six months ended 30 September | |
|--|----------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Customer A from coal mining business segment | * | 10,197 |
| Customer B from coal mining business segment | 6,765 | 2,333 |
| Customer C and its affiliated companies from IT services business segment | 12,761 | – |

* The corresponding revenue did not contribute 10% or more of the total revenue of the Group during the period ended 30 September 2019.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

4. REVENUE

| | Six months ended 30 September | |
|---|----------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Revenue from contracts with customers within HKFRS 15 | | |
| Coal mining business | | |
| – Sales of coals | 38,166 | 16,079 |
| Renewable energy business | | |
| – Service income from renewable energy services | 388 | – |
| IT services business | | |
| – Sales of hardware products | 4,446 | – |
| – IT outsourcing services | 14,606 | – |
| – IT consultancy and technical services | 6,059 | – |
| | 63,665 | 16,079 |

In addition to the information shown in segment disclosures, the revenue from contracts with customers within HKFRS 15 is disaggregated as follows:

| | Six months ended 30 September | |
|---|----------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| <i>Timing of revenue recognition:</i> | | |
| – at a point of time | | |
| Sales of coals | 38,166 | 16,079 |
| Sales of hardware products | 4,446 | – |
| | 42,612 | 16,079 |
| – over time | | |
| Service income from renewable energy services | 388 | – |
| IT outsourcing services | 14,606 | – |
| IT consultancy and technical services | 6,059 | – |
| | 21,053 | – |
| | 63,665 | 16,079 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

5. INCOME TAX EXPENSES

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

| | Six months ended 30 September | |
|--|----------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Current tax | | |
| The Mainland China Enterprise Income Tax | 3,757 | 286 |
| Malaysia corporate income tax ("Malaysia CIT") | 16 | – |
| Singapore corporate income tax ("Singapore CIT") | 5 | – |
| | 3,778 | 286 |
| Deferred tax | | |
| Changes in temporary differences | 91 | 5 |
| Total income tax expenses | 3,869 | 291 |

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

In March 2018, the two-tiered profits tax rates regime was signed into law of Hong Kong, under which the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5% for the six months ended 30 September 2019 and 2018. The profits of corporations in the Group not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% of the estimated assessable profits for the six months ended 30 September 2019 and 2018.

Under the Law of the Mainland China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Mainland China subsidiaries is 25% for both six months ended 30 September 2019 and 2018.

Malaysia CIT is calculated at the rate of 24% of the estimated assessable profits of the Group's entities in Malaysia arising from Malaysia during the period ended 30 September 2019. Malaysia incorporated entities with paid-up capital of RM2.5 million or less enjoy tax rate of 18% on the first RM500,000 and remaining balance of the estimated assessable profits at the standard rate for the six months ended 30 September 2019.

During the six months ended 30 September 2019, Malaysian subsidiaries are eligible for a reduction of between 1% and 4% on the standard tax rate for a portion of their income if there is an increase of 5% or more in the entities' taxable income from a business, compared to the immediately preceding year of assessment. The reduction in the tax rate will apply to the portion of taxable income representing the increase.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

5. INCOME TAX EXPENSES (Continued)

Singapore CIT is calculated at the rate of 17% of the estimated assessable profits of the Group's entities in Singapore arising from Singapore with Singapore CIT rebate of 20%, capped at Singapore dollars ("S\$") 10,000 for the six months ended 30 September 2019.

During the six months ended 30 September 2019, Singapore incorporated companies can enjoy 75% tax exemption on the first S\$10,000 of normal taxable income and a further 50% tax exemption on the next S\$290,000 of normal taxable income.

Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information as there was no estimated assessable profits being derived from Hong Kong for both six months ended 30 September 2019 and 2018.

The Group's entities established in United Kingdom is subject to the CIT at a statutory rate of 19% for the six months ended 30 September 2019.

6. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

| | Six months ended 30 September | |
|--|----------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Finance costs | | |
| Interest on interest-bearing borrowings | 2,568 | – |
| Interest on promissory notes | 110 | – |
| Interest on lease liabilities | 80 | – |
| | 2,758 | – |
| Other items | | |
| Amortisation of intangible assets (included in "Cost of services and goods sold") | 2,946 | 1,865 |
| Cost of inventories sold | 16,471 | 11,824 |
| Depreciation of property, plant and equipment | 2,732 | 1,116 |
| Staff costs (excluding directors' remuneration) | | |
| – Basic salaries, allowances, bonus and other short-term employee benefits | 23,312 | 4,165 |
| – Contributions to defined contribution retirement plans | 962 | 471 |

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

For the six months ended 30 September 2019

7. INTERIM DIVIDEND

No dividends were paid, declared or proposed during the six months ended 30 September 2019 (six months ended 30 September 2018: Nil). The directors of the Company do not recommend the payment of an interim dividend (six months ended 30 September 2018: Nil).

8. EARNINGS PER SHARE

(a) Basic earnings per share

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

| | Six months ended 30 September | |
|---|----------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Profit | | |
| Profit for the purpose of basic earnings per share (Profit for the period attributable to owners of the Company) | 32,973 | 34,573 |
| Weighted average number of ordinary shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 765,373,584 | 765,373,584 |

(b) Diluted earnings per share

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

- (i) Profit for the period attributable to owners of the Company

| | Six months ended 30 September | |
|---|----------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Profit for the period attributable to owners of the Company | 32,973 | 34,573 |
| Change in fair value of convertible bond | (28,484) | (44,148) |
| Exchange loss on convertible bond | 10,064 | 20,426 |
| | 14,553 | 10,851 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

8. EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share (Continued)

(ii) Weighted average number of ordinary shares

| | Six months ended 30 September | |
|---|----------------------------------|---------------------|
| | 2019 (unaudited) | 2018 (unaudited) |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 765,373,584 | 765,373,584 |
| Effect of conversion of convertible bond | 1,000,000,000 | 1,000,000,000 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 1,765,373,584 | 1,765,373,584 |

9. PROPERTY, PLANT AND EQUIPMENT

| | Right-of-use assets HK\$'000 | Leasehold land and buildings HK\$'000 | Plant and machinery HK\$'000 | Furniture, equipment and motor vehicles HK\$'000 | Construction- in-progress HK\$'000 | Total HK\$'000 |
|--|------------------------------------|--|------------------------------------|--|--|-------------------|
| Cost | | | | | | |
| As at 1 April 2019 (audited) | – | 14,458 | 25,298 | 7,500 | 32,350 | 79,606 |
| Adjustment on transition to HKFRS16 (Note 2) | 2,339 | – | – | – | – | 2,339 |
| Additions through acquisition of subsidiaries (Note 23) | 565 | – | – | 24 | – | 589 |
| Exchange realignment | – | (1,112) | (1,961) | (245) | (988) | (4,306) |
| Additions | 1,605 | 297 | 556 | 240 | 37,970 | 40,668 |
| Transfers | – | 19,331 | 40,698 | – | (60,029) | – |
| As at 30 September 2019 (unaudited) | 4,509 | 32,974 | 64,591 | 7,519 | 9,303 | 118,896 |
| Accumulated depreciation and impairment losses | | | | | | |
| As at 1 April 2019 (audited) | – | 7,757 | 15,758 | 4,721 | – | 28,236 |
| Exchange realignment | – | (380) | (666) | (235) | – | (1,281) |
| Charge for the year | 657 | 370 | 1,341 | 364 | – | 2,732 |
| As at 30 September 2019 (unaudited) | 657 | 7,747 | 16,433 | 4,850 | – | 29,687 |
| Net carrying amount | | | | | | |
| As at 30 September 2019 (unaudited) | 3,852 | 25,227 | 48,158 | 2,669 | 9,303 | 89,209 |
| As at 31 March 2019 (audited) | – | 6,701 | 9,540 | 2,779 | 32,350 | 51,370 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

10. INTANGIBLE ASSETS

During the six months ended 30 September 2019, no impairment loss (six months ended 30 September 2018: no impairment loss) was made on the intangible assets.

11. GOODWILL

| | Coal Mining CGU HK\$'000 (Note (a)) | Renewable Energy CGU HK\$'000 (Note (b)) | IT Services CGU HK\$'000 (Note (c)) | Total HK\$'000 |
|---|---|--|---|-------------------|
| Cost | | | | |
| As at 1 April 2019 (audited) | 37,469 | 4,229 | – | 41,698 |
| Arising from acquisition of subsidiaries (Note 23) | – | – | 24,148 | 24,148 |
| As at 30 September 2019 (unaudited) | 37,469 | 4,229 | 24,148 | 65,846 |
| Accumulated impairment losses | | | | |
| As at 1 April 2019 (audited) and 30 September 2019 (unaudited) | 37,469 | – | – | 37,469 |
| Net carrying amount | | | | |
| As at 30 September 2019 (unaudited) | – | 4,229 | 24,148 | 28,377 |
| As at 31 March 2019 (audited) | – | 4,229 | – | 4,229 |

11(a) Coal Mining CGU

The goodwill arising on acquisition of 奇台縣澤旭商貿有限責任公司 (Qitai County Zexu Trading Company Limited*) and 木壘縣凱源煤炭有限責任公司 (Mulei County Kai Yuan Coal Company Limited*, “Kaiyuan Company”) was fully impaired during the year ended 31 March 2011.

* English translation for identification purpose only.

11. GOODWILL (Continued)

11(b) Renewable Energy CGU

The goodwill arising from the acquisition of 90% equity interests in NEFIN Leasing Technologies Limited and its subsidiary on 8 October 2018 was included in the cash generating units engaged in renewable energy solutions (the “Renewable Energy CGU”).

As at 30 September 2019, the directors of the Company assessed the recoverable amount of the Renewable Energy CGU with reference to value-in-use (“VIU”) calculations using cash flow projections based on financial budgets and forecasts covering a five-year period and extrapolation of cash flows beyond such period conducted by ValQuest Advisory Group Limited (“ValQuest”).

As at 30 September 2019, the recoverable amount of the Renewable Energy CGU is higher than its carrying amount. Accordingly, there was no impairment on the goodwill during the six months ended 30 September 2019.

11(c) IT services CGU

The goodwill of approximately HK\$24,148,000 arising from the acquisition of 80.86% equity interests in Harbour Group Holdings Limited (“Harbour Group Holdings”) and its subsidiaries (together referred to as “Harbour Group”) on 23 April 2019 (Note 23) was included in the cash generating units engaged in information technology outsourcing, consultancy and technical services (the “IT services CGU”).

As at 30 September 2019, the directors of the Company assessed the recoverable amount of the IT services CGU with reference to VIU calculations using cash flow projections based on financial budgets and forecasts covering a five-year period and extrapolation of cash flows beyond such period conducted by Peak Vision Appraisals Limited (“Peak Vision”).

As at 30 September 2019, the recoverable amount of the IT services CGU is higher than its carrying amount. Accordingly, there was no impairment on the goodwill during the six months ended 30 September 2019.

12. CONTINGENT CONSIDERATION RECEIVABLES

| | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|---|---|---|
| Reconciliation of carrying amount | | |
| At the beginning of the reporting period | – | – |
| Arising from acquisition of subsidiaries | 5,364 | – |
| Change in fair value recognised in profit or loss | 1,234 | – |
| At the end of the reporting period | 6,598 | – |

As part of the acquisition consideration upon the completion of the acquisition of Harbour Group Holdings, the vendor of Harbour Group (the “Vendor”) has agreed to guarantee to the Company that the audited consolidated net profit generated from operating activities of Harbour Group in its ordinary and usual course of business (i.e. the net profit after tax of Harbour Group as to be shown in the audited accounts of Harbour Group), prepared in accordance with HKFRS issued by the HKICPA for the relevant financial period by the auditors appointed by the Company (the “Net Profit”) for each of the financial years ended/ending 31 December 2018, 2019 and 2020 (each such 12-month period is referred to as a “PG 12-Month Period”) shall be no less than HK\$7,200,000 per annum (the “Guaranteed Profit”). In the event that the Net Profit during the PG-12 Month Period is less than the Guaranteed Profit, the Vendor unconditionally and irrevocably undertakes and guarantees, as a continuing obligation, to pay such shortfall multiplying the ratio (1.13) (the “Shortfall Amount”) presented as below:

$$\text{Shortfall Payment} = 1.13 \times (\text{Guaranteed Profit} - \text{Net Profit})$$

In the opinion of the directors of the Company, this profit guarantee is for the exchange of control for the Harbour Group and therefore considered as contingent consideration receivables and measured at fair value. Subsequent changes to the fair value of the contingent consideration receivables will be recognised in profit or loss of the Group, approximately HK\$1,234,000 was recognised in profit or loss during the six months ended 30 September 2019.

The valuation of the contingent consideration receivables is valued by Peak Vision in accordance with HKFRS 13 and is mainly based on the latest audited financial information of Harbour Group for the year ended 31 December 2018 and Harbour Group’s financial performance forecasts for the years ending 31 December 2019 and 2020 prepared by the management of the Harbour Group. Accordingly, the fair value of the contingent consideration receivable was estimated to be approximately HK\$5,364,000 as at the acquisition date (i.e. 23 April 2019). Monte Carlo Simulation Method is used for the valuation of contingent consideration receivables which is commonly-adopted in the market. It was first introduced to finance in 1964 by David B. Hertz through his Harvard Business Review article, and in 1977, Prelim Boyle pioneered the use of simulation in derivative valuation in his seminal Journal of Financial Economics paper.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

12. CONTINGENT CONSIDERATION RECEIVABLES (Continued)

The value of contingent consideration receivables is derived from the cash flow compensation as a result of the possibility of failure to meet the Guaranteed Profit by Harbour Group. As such, Peak Vision adopted the Monte Carlo Simulation Method, which is a path dependent model to consider the probability weighted distribution of the possible outcomes and factors the volatility of these outcomes. The Monte Carlo Simulation Method is one of the most commonly adopted valuation methodologies to value contingent receivable or profit guarantee.

The Vendor shall pay to the Group the Shortfall Amount by way of cash and/or setting off the same amount from the amount owed by the Company under the Promissory Notes (as defined in Note 18) after the audited financial statements are issued by the auditors of Harbour Group for the relevant PG-12 Month Period.

In the event that the Net Profit for the PG-12 Month Period exceeds the Guaranteed Profit, such excess amount shall not be carried forward to meet the Guaranteed Profit for the subsequent period.

Key inputs adopted in the calculation of the fair value of contingent consideration receivables are summarised below:

| | 30 September 2019 (unaudited) | 23 April 2019 (unaudited) |
|------------------|-------------------------------------|---------------------------------|
| Discount rate | 6.88% – 7.09% | 6.65% – 6.78% |
| Volatility | 41.46% – 63.00% | 58.62% – 61.40% |
| Time to maturity | 0.25 year – 1.25 year | 0.67 year – 1.67 year |

The description of sensitivity of changes in unobservable inputs for recurring Level 3 fair value measurements, are as follows:

| Asset | Valuation technique | Unobservable inputs | Relationship of unobservable inputs to fair value |
|--------------------------------------|------------------------|---------------------|--|
| Contingent consideration receivables | Monte-Carlo Simulation | Discount rate | The higher the discount rate, the lower the fair value, vice versa |
| | | Volatility | The higher the volatility, the higher the fair value, vice versa |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

13. TRADE AND OTHER RECEIVABLES

| | Note | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|---|-------|---|---|
| Trade receivables | | | |
| From third parties | | 8,044 | – |
| Loss allowances | | (46) | – |
| | 13(a) | 7,998 | – |
| Other receivables | | | |
| Prepayments, deposits and other receivables | | 6,566 | 4,040 |
| Refundable deposit paid for acquisition of subsidiaries | | – | 3,571 |
| Other taxes receivables | | 194 | 613 |
| Non-refundable deposits | | 2,315 | 2,431 |
| Prepayments for acquisition of property, plant and equipment | | 1,252 | 19,635 |
| | | 10,327 | 30,290 |
| | | 18,325 | 30,290 |
| Analysed by: | | | |
| Non-current assets | | 3,567 | 22,066 |
| Current assets | | 14,758 | 8,224 |
| | | 18,325 | 30,290 |

13. TRADE AND OTHER RECEIVABLES (Continued)

13(a) Trade receivables

Loss allowance

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

The Group grants credit period up to 60 days from the date of issuance of invoice to its customers from renewable energy business segment and IT services business segment.

Ageing analysis

At the end of reporting period, the ageing analysis of the trade receivables (presented based on the invoice date) and bills receivables (presented based on the issuance date of relevant bills), net of loss allowances was as follows:

| | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|----------------------|---|---|
| Within 30 days | 5,006 | – |
| 31-60 days | 1,425 | – |
| 61-90 days | 778 | – |
| Over 90 days | 835 | – |
| Less: loss allowance | (46) | – |
| | 7,998 | – |

14. RESTRICTED BANK BALANCES

Pursuant to the loan agreement signed with a bank in the Mainland China, the amounts represent bank balances in the bank in the Mainland China maintained solely for the purpose of settlement of outstanding interest-bearing borrowings and are restricted for use by the Group for any other purposes. The restricted bank balances are denominated in RMB.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

15. TRADE AND OTHER PAYABLES

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

| | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|---|---|---|
| Within 90 days | 12,099 | 11 |
| 91-180 days | 32 | 10,523 |
| 181-365 days | 9,938 | 80 |
| Over 1 year | 71 | 75 |
| Trade payables | 22,140 | 10,689 |
| Contract liabilities | 8,002 | 564 |
| Government levies payable | | |
| – Economic development fees in coal resources areas | 25,997 | 27,307 |
| – Others | 3,660 | 3,845 |
| Accrued expenses | 3,547 | 3,906 |
| Non-refundable deposits received | 6,909 | 5,673 |
| Other payables | 5,292 | 6,810 |
| Total trade and other payables | 75,547 | 58,794 |

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

16. INTEREST-BEARING BORROWINGS

| | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|--------------------------------------|---|---|
| Current portion | | |
| Interest-bearing borrowings, secured | 67,302 | 68,345 |

As at 30 September 2019, the Group's interest-bearing borrowings of approximately HK\$63,962,000 are dominated in RMB, carry interest rate at 4.75% per annum (31 March 2019: 4.75%) and are repayable by instalments of RMB1,000,000 semi-annually while the outstanding balances of the borrowings are to be repaid in full in September 2020. The interest-bearing borrowings are secured by restricted bank balances (Note 14) with carrying amount of approximately HK\$73,888,000 (31 March 2019: approximately HK\$77,612,000). The Group's interest-bearing borrowings of approximately HK\$3,340,000 are dominated in HK\$ carry interest rate at 4.40% to 6.00% per annum and are wholly repayable within five years since its inception. The interest-bearing borrowings are guaranteed by a director of the Group's subsidiaries and the Hong Kong Mortgage Corporation Limited.

The interest-bearing borrowings with a clause in their terms that gives the bank an overriding right to demand for repayment without notice at its sole discretion are classified as current liabilities even though the directors of the Company do not expect that the bank would exercise its right to demand repayment.

17. CONVERTIBLE BOND

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

On 11 February 2011, the Company entered into a deed of amendment with Ascent Goal ("1st extended Convertible Bond"), to extend the maturity date of the convertible bond for 36 months and the conversion period will accordingly be extended for 36 months from 14 March 2011 (date of extension) to 13 March 2014. Apart from the extension of the maturity date and the conversion period, all terms of the convertible bond remain unchanged from the original terms.

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

On 21 January 2014, the Company entered into a second deed of amendment with Ascent Goal ("2nd extended Convertible Bond") to extend the maturity date of 1st extended Convertible Bond for 36 months and the conversion period will accordingly be extended for 36 months from 14 March 2014 (date of extension) to 13 March 2017 ("2nd extended Maturity Date"). Apart from the extension of maturity date and the conversion period, all terms of the 2nd extended Convertible Bond remain unchanged from the original terms.

The 2nd extended Maturity Date is considered to be a substantial modification of terms of 1st extended Convertible Bond as the discounted present value of the cash flows of the 2nd extended Convertible Bond is more than 10% different from the discounted present value of the cash flows of the outstanding 1st extended Convertible Bond prior to the extension of maturity date. As such, Convertible Bond was derecognised and 2nd extended Convertible Bond was recognised. The fair value of the 2nd extended Convertible Bond as at 14 March 2014 amounting to approximately HK\$200,000,000. An extinguishment loss of approximately HK\$211,000 has been recognised in profit or loss during the year ended 31 March 2014.

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

17. CONVERTIBLE BOND (Continued)

The 3rd extended Maturity Date was considered to be a substantial modification of terms of the 2nd extended Convertible Bond as the discounted present value of the cash flows of the 3rd extended Convertible Bond is more than 10% different from the discounted present value of the cash flows of the 2nd extended Convertible Bond prior to the extension of maturity date. As such, the 2nd extended Convertible Bond was derecognised and the 3rd extended Convertible Bond was recognised. The fair value of the 3rd extended Convertible Bond as at 14 March 2017 amounted to approximately HK\$264,904,000. An extinguishment loss of approximately HK\$5,941,000 has been recognised in profit or loss during the year ended 31 March 2017.

The 3rd extended Convertible Bond was valued by the directors of the Company with reference to valuation report issued by an independent qualified valuer not connected to the Group. The fair value changes during the six months ended 30 September 2019 and 2018 have been recognised in profit or loss.

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

| | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|--|---|---|
| Balance at beginning of the period/year | 217,869 | 247,242 |
| Fair value change credited to the profit or loss | (28,484) | (29,373) |
| Loss on translation of 3 rd extended Convertible Bond denominated in a foreign currency into the functional currency | 10,064 | 16,340 |
| Exchange adjustment arising on translation of functional currency to presentation currency and record to other comprehensive income | (10,064) | (16,340) |
| Balance at end of the period/year | 189,385 | 217,869 |
| Analysed for reporting as: | | |
| Current liabilities | 189,385 | 217,869 |
| Difference between carrying amount and maturity amount: | | |
| 3 rd extended Convertible Bond at fair value | 189,385 | 217,869 |
| Amount payable on maturity | (200,000) | (200,000) |
| | (10,615) | 17,869 |

None of the 3rd extended Convertible Bond had been converted into ordinary shares of the Company during the six months ended 30 September 2019 and the year ended 31 March 2019.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

18. PROMISSORY NOTES

| | Note | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|--|------|---|---|
| At the beginning of the reporting period | | – | – |
| Issued during the period | (i) | 6,764 | – |
| Repayment of a promissory note | (ii) | (2,400) | – |
| Accrued effective interest expenses | | 110 | – |
| Carrying value at the end of the reporting period | | 4,474 | – |
| Face value, at the end of the reporting period | | 4,800 | – |
| <i>Analysed by:</i> | | | |
| Non-current liabilities | | 2,164 | – |
| Current liabilities | | 2,310 | – |
| | | 4,474 | – |

- (i) During the six months ended 30 September 2019, 3 promissory notes with principal amount of HK\$2,400,000 each (“Promissory Note 1”, “Promissory Note 2” and “Promissory Note 3”, together “Promissory Notes”) were issued by the Company to the Vendor as part of the acquisition consideration upon the completion of the Group’s acquisition of Harbour Group Holdings on 23 April 2019 with a fair value of approximately HK\$6,764,000 (aggregate principal amount of HK\$7,200,000) based on the professional valuation performed by Peak Vision, as set out in Note 23. The Promissory Notes bear no interest. The maturity dates of Promissory Note 1, Promissory Note 2 and Promissory Note 3 are 15 business days after the audited consolidated financial statements are issued by the auditors of the Harbour Group for the year ended/ending 31 December 2018, 2019 and 2020, respectively. The effective interest rates of the Promissory Note 1, Promissory Note 2 and Promissory Note 3 were determined to be approximately 0%, 6.65% and 6.78% per annum, respectively.
- (ii) During the six months ended 30 September 2019, the Group fully repaid the Promissory Note 1 with principal amount of HK\$2,400,000 as it was mature.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

19. LEASE LIABILITIES

| | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|--|---|---|
| Carrying amount of right-of-use assets (Note 9) | | |
| Leased properties | 3,464 | – |
| Motor vehicles | 388 | – |
| | 3,852 | – |
| | | |
| | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
| <i>Lease liabilities</i> | | |
| Current | 1,796 | – |
| Non-current | 2,221 | – |
| | 4,017 | – |

In addition to the information disclosed in Note 9, the Group had the following amounts relating to leases during the six months ended 30 September 2019:

| | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|---|---|---|
| Depreciation charge of right-of-use assets | | |
| Leased properties | 480 | – |
| Motor vehicles | 177 | – |
| | 657 | – |

The total cash outflow for leases for the period ended 30 September 2019 was approximately HK\$560,000.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

19. LEASE LIABILITIES (Continued)

Commitments and present value of lease liabilities:

| | Lease payments | | Present value of lease payments | |
|--|---|---|---|---|
| | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
| Amount payable: | | | | |
| Within one year | 1,990 | – | 1,818 | – |
| More than one year, but not exceeding two years | 2,280 | – | 2,199 | – |
| | 4,270 | – | 4,017 | – |
| Less: future finance charges | (253) | – | – | – |
| | 4,017 | – | 4,017 | – |

20. SHARE CAPITAL

| | Number of ordinary shares of HK\$0.1 each | Amount HK\$'000 |
|---|--|--------------------|
| Ordinary Shares | | |
| Authorised: | | |
| At 1 April 2018 (audited), 31 March 2019 (audited) and 30 September 2019 (unaudited) | 5,000,000,000 | 500,000 |
| Issued and fully paid: | | |
| At 1 April 2018 (audited), 31 March 2019 (audited) and 30 September 2019 (unaudited) | 765,373,584 | 76,537 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 30 September 2019 and 31 March 2019.

Fair value hierarchy

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

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 (lowest level): unobservable inputs for the asset or liability

The Group uses independent professional valuers to perform valuations of financial instruments which are categorised into Level 2 and Level 3 of the fair value hierarchy. Valuation reports with analysis of changes in fair value measurement are prepared by the independent professional valuers at each interim and annual reporting date, and are reviewed and approved by the financial controller. Discussion of the valuation process and results with the financial controller is held twice a year to coincide with the reporting dates.

| | Fair value as at 30 September 2019 HK\$'000 | Unaudited Fair value measurements as at 30 September 2019 categorised into | | |
|--|--|--|---------------------|---------------------|
| | | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 |
| Recurring fair value measurements | | | | |
| Assets: | | | | |
| Contingent consideration receivables | 6,598 | - | - | 6,598 |
| Liabilities: | | | | |
| Convertible bond designated as financial liabilities at FVPL | (189,385) | - | - | (189,385) |

| | Fair value as at 31 March 2019 HK\$'000 | Audited Fair value measurements as at 31 March 2019 categorised into | | |
|--|--|--|---------------------|---------------------|
| | | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 |
| Recurring fair value measurements | | | | |
| Assets: | | | | |
| Financial assets measured at FVPL-Principal guaranteed funds | 60,236 | - | 60,236 | - |
| Liabilities: | | | | |
| Convertible bond designated as financial liabilities at FVPL | (217,869) | - | - | (217,869) |

During the year ended 31 March 2019 and six months ended 30 September 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

The fair value of the principal guaranteed funds was determined by reference to the price quoted by the bank at initial subscription and adjusted for any change in relevant interest rates credit rating and/or holding period of the principal guaranteed funds, if the impact is material.

Information about Level 3 fair value measurements

The descriptions of the valuation techniques and inputs used in fair value measurement for contingent consideration receivables were detailed in Note 12.

Convertible bond designated as financial liabilities at FVPL

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

- (i) The estimation of risk free rate has made reference to the yield of Exchange Fund Bill with same duration as the convertible bond;
- (ii) The estimation of volatility for the underlying share price has considered the historical price movements of the Company;
- (iii) The discount rate was determined based on the Company's credit rating and comparable corporate bonds with similar maturity and credit risk for which the range of comparable yield to maturity as of date of valuation was determined and the median has been adopted; and
- (iv) The estimation of dividend yield is based on historical dividend payment of the Company.

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

| | 30 September 2019 (unaudited) | 31 March 2019 (audited) |
|------------------------|-------------------------------------|-------------------------------|
| Stock price | HK\$0.19 | HK\$0.24 |
| Exercise price | HK\$0.20 | HK\$0.20 |
| Risk free rate | 2.01% | 1.44% |
| Discount rate | 14.20% | 9.40% |
| Dividend yield | 0% | 0% |
| Time to expiration | 0.45 years | 0.95 years |
| Stock price volatility | 39.32% | 64.00% |

The significant unobservable input used in the fair value measurement is expected stock price volatility. The fair value measurement is positively correlated to the expected stock price volatility. If the expected stock price volatility has been 5% (31 March 2019: 5%) higher with all other variables held constant, the Group's profit for the six months ended 30 September 2019 would decrease and accumulated losses would increase by approximately HK\$992,000 (31 March 2019: the Group's profit for the year would decrease and accumulated losses would increase by approximately HK\$3,080,000) during the six months ended 30 September 2019. If the expected stock price volatility has been 5% (31 March 2019: 5%) lower with all other variables held constant, the Group's profit for the six months ended 30 September 2019 would increase and accumulated losses would decrease by approximately HK\$694,000 (31 March 2019: the Group's profit for the year would increase and accumulated losses would decrease by approximately HK\$3,048,000) during the six months ended 30 September 2019.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 fair value measurements

The movements during the period in the balances of financial asset and financial liability of level 3 fair value measurement is set out in Note 12 and Note 17, respectively.

22. RELATED PARTY TRANSACTIONS

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

| | Six months ended 30 September | |
|---|----------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| China Sonangol International Limited ("China Sonangol") (Note a) – rental expenses | – | 420 |

Note:

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

(b) Compensation of key management personnel

The remuneration of directors and other members of key management for the six months ended 30 September 2019 and 2018 were as follows:

| | Six months ended 30 September | |
|---|----------------------------------|---------------------------------|
| | 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
| Basic salaries, allowances, bonus and other short-term employee benefits | 7,580 | 1,494 |
| Contributions to defined contribution retirement plans | 22 | 7 |
| | 7,602 | 1,501 |

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

23. ACQUISITION OF SUBSIDIARIES

On 11 March 2019, (i) Ample Talent Ventures Limited (“Ample Talent”), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, the Vendor, pursuant to which the Vendor has conditionally agreed to sell, and Ample Talent has conditionally agreed to purchase 80% equity interest in Harbour Group Holdings at an aggregate consideration of HK\$35,712,000; and (ii) Ample Talent and Harbour Group Holdings entered into a subscription agreement, pursuant to which Harbour Group Holdings has conditionally agreed to issue and allot to Ample Talent, and Ample Talent has conditionally agreed to subscribe for 450 ordinary shares of Harbour Group Holdings, representing approximately 4.5% of the total number of shares of Harbour Group Holdings in issue as at the date of subscription agreement at an aggregate subscription price of HK\$2,008,800. Upon completion of the above transactions, Ample Talent held 80.86% equity interest in Harbour Group Holdings.

Pursuant to the sale and purchase agreement, the consideration for the sale and purchase of the sale shares shall be the sum of HK\$35,712,000, which shall be settled by Ample Talent to the Vendor in the following manner:

- (a) on the date of the sale and purchase agreement, the Ample Talent paid to the Vendor a sum of HK\$3,571,200 in cash as a refundable deposit and partial payment of the consideration; and
- (b) at the completion date of sale and purchase of the 80% equity interest in Harbour Group Holdings, Ample Talent shall pay to the Vendor (i) a further sum of HK\$24,940,800 in cash; and (ii) the remaining amount of HK\$7,200,000 by means of the issue of the Promissory Notes by the Company to the Vendor.

Pursuant to the sale and purchase agreement, the Vendor has agreed to guarantee that the Net Profit for PG 12-Month Period shall be no less than the Guaranteed Profit. In the event that the Net Profit during the PG 12-Month Period is less than the Guaranteed Profit, the Vendor unconditionally and irrevocably undertakes and guarantees, as a continuing obligation, to pay the Shortfall. The detail is set out in Note 12.

Harbour Group consists of Harbour Group Holdings, Harbour Group (Singapore) Pte. Limited, Harbour Group Consulting (UK) Limited, HGH Technology Sdn. Bhd., Mountain Managed Cloud Consulting Limited and Vanguard Business Services Limited. Harbour Group is principally engaged in the provision of information technology outsourcing, consultancy and technical services mainly in Hong Kong with expanding business in United Kingdom, Malaysia and Singapore. The directors of the Company are of the view that the acquisition can broaden the Group’s revenue base and benefit from the diversified return in future. The acquisition constituted a business combination and had been accounted for using the acquisition method under HKFRS 3 Business Combinations.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

23. ACQUISITION OF SUBSIDIARIES (Continued)

On 23 April 2019, the acquisition of Harbour Group Holdings was completed and Harbour Group has become subsidiaries of the Group since then. The consideration paid and the amounts of the net identifiable assets acquired and liabilities assumed of Harbour Group are as follows:

| | HK\$'000 |
|--|---------------|
| Total identifiable assets acquired and liabilities assumed, at fair value: | |
| Non current assets | |
| Property, plant and equipment | 589 |
| Current assets | |
| Trade and other receivables | 13,906 |
| Bank balances and cash | 6,027 |
| Current liabilities | |
| Trade and other payables | (5,132) |
| Income tax payables | (427) |
| Bank overdrafts and interest-bearing borrowings | (4,112) |
| Lease liabilities | (553) |
| Non-current liabilities | |
| Deferred tax liabilities | (685) |
| Total identifiable net assets, at fair value | 9,613 |
| Non-controlling interests | (1,840) |
| Goodwill arising from acquisition (Note 11) | 24,148 |
| Net consideration (fair value) | 31,921 |
| Satisfied by: | |
| Cash | 30,521 |
| Promissory Notes (Note 18) | 6,764 |
| | 37,285 |
| Less: | |
| Fair value of contingent consideration receivables (Note 12) | (5,364) |
| Net consideration (fair value) | 31,921 |
| Analysis of the net outflows in respect of the acquisition of Harbour Group is as follows: | |
| Cash and cash equivalents acquired | 6,027 |
| Cash paid | (30,521) |
| | (24,494) |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2019

23. ACQUISITION OF SUBSIDIARIES (Continued)

The directors of the Company have engaged Peak Vision to provide assistance in determining the fair value of the assets and liabilities of Harbour Group in accordance with HKFRS 13. Peak Vision has reviewed the methodologies, the key valuation parameters and business assumptions adopted.

The non-controlling interests were measured at the present ownership instruments' proportionate share in the recognised amounts of the Harbour Group's identifiable net assets as at 23 April 2019.

The goodwill arising from the acquisition is attributable to the growth and profit potential in the expansion of innovative and information technology business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Since acquisition and up to 30 September 2019, the acquired business has contributed revenue of approximate HK\$25,111,000 and contributed a profit of approximately HK\$2,719,000 to the Group.

If the business combinations effected during the six months ended 30 September 2019 had been taken place as at 1 April 2019, the revenue and profits of the Group would be increased by approximately HK\$29,868,000 and increased by approximately HK\$3,120,000, respectively.

24. COMMITMENTS

Capital expenditure commitments

| | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|--|---|---|
| Contracted but not provided net of deposit paid for acquisition of property, plant and equipment | 28,248 | 13,993 |

Operating lease commitments

The Group as lessee

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

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

| | 30 September 2019 HK\$'000 (unaudited) | 31 March 2019 HK\$'000 (audited) |
|---|---|---|
| Within one year | 1,312 | 1,211 |
| In the second to fifth years, inclusive | – | 1,725 |
| | 1,312 | 2,936 |

25. EVENTS AFTER REPORTING PERIOD

- (a) On 1 November 2019, Kaiyuan Company received a reminder notice issued by Production Safety Supervision and Administration Bureau of Xinjiang Zhundong Economic and Technological Development Zone* (新疆准東經濟技術開發區安全生產監督管理局), pursuant to which, Kaiyuan Company shall suspend the mining operations and sale of Kaiyuan Open Pit Coal Mine (“Kaiyuan Mine”) after the expiry of the mining permit of Kaiyuan Company at Kaiyuan Mine (“Existing Mining Permit”) on 3 November 2019 if Kaiyuan Company fails to extend the Existing Mining Permit. The operation of Kaiyuan Mine was suspended following the expiry of the Existing Mining Permit on 3 November 2019.
- (b) As disclosed in the announcement of the Company on 15 November 2019:

Kaiyuan Company has been granted the New Mining Permit in respect of the Kaiyuan Extended Area Mining Right for the Kaiyuan Mine with an enlarged mining area (including the original mining area) from the original mining area of approximately 1.1596 km² (the “Original Kaiyuan Mine”) to 4.1123 km² (the “Enlarged Kaiyuan Mine”). The New Mining Permit is valid for 1 year from 21 December 2018 to 21 December 2019, which covers a mining area of approximately 4.1123 km² with designed capacity of 0.9 million tonnes per annum, representing ten times of the designed annual capacity of 90,000 tonnes of the Original Kaiyuan Mine;

According to the New Mining Permit, the estimated coal resources of the approved Kaiyuan Extended Area Mining Right for the mining life of 30 years are 41.6433 million tonnes. The assessed value of the Kaiyuan Extended Area Mining Right by the Xinjiang Natural Resources Department is RMB160,978,000;

A formal transfer agreement is requested to be entered into between Kaiyuan Company and the Xinjiang Natural Resources Department, which sets out the rights and obligations of the respective parties in respect of the Kaiyuan Extended Area Mining Right, including but not limited to, the amount payable (i.e. the assessed value) by the Kaiyuan Company to the Xinjiang Natural Resources Department for the transfer of the Kaiyuan Extended Area Mining Right, the supplemental resources fee and the relevant payment schedule. Such agreement is now placed under the official approval process of the Xinjiang Natural Resources Department.

* *English translation for identification purpose only.*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

For the six months ended 30 September 2019 (the “Reporting Period”), the Group was engaged in three business segments, (1) coal mining business; (2) renewable energy business and (3) IT services business. Our main business is coal mining and sales of coal in Xinjiang Uygur Autonomous Region (“Xinjiang”) of Mainland China. Xinjiang is remote from major industrial cities in Mainland China, hence coal produced in Xinjiang is mainly consumed locally due to the reason of logistic and transportation costs. On 8 October 2018, we completed the acquisition of NEFIN Leasing Technologies Limited and its wholly-owned subsidiary, NEFIN Technologies (Malaysia) Sdn. Bhd. (“NEFIN Technologies”) (together the “NEFIN Group”) which is principally engaged in renewable energy solutions in Malaysia. We further allocated resources into the solar energy projects during the Reporting Period so as to enable higher efficiency together with the existing solar assets. On 23 April 2019, we further completed the acquisition of Harbour Group which is principally engaged in the provision of information technology outsourcing, consultancy and technical services mainly in Hong Kong with expanding business in United Kingdom, Malaysia and Singapore. Our Group will endeavor to continue our focus on developing the existing business. In the long run, we will aspire and strive to grow into an enterprise with a diversified business.

Revenue

The Group recorded a revenue of approximately HK\$63,665,000 for the Reporting Period (2018: approximately HK\$16,079,000). It represents an increase of approximately HK\$47,586,000 or approximately 295.95% as compared with the previous corresponding period.

Coal Mining Business

During the Reporting Period, the revenue of approximately HK\$38,166,000 of the coal mining business increased by approximately HK\$22,087,000 or approximately 137.37% as compared to approximately HK\$16,079,000 in the same period of year 2018. The increase in revenue of the coal mining business was mainly due to (i) the suspension of production at the Kaiyuan Mine in the previous corresponding period from 11 April 2018 to 29 August 2018 was not incurred in the Reporting Period; and (ii) the Group sold approximately 572,011 tonnes (2018: approximately 357,372 tonnes) of coal during the Reporting Period, increased by approximately 60.06% in volume compared to that in the previous corresponding period.

Renewable Energy Business

During the Reporting Period, the renewable energy business recorded a turnover of approximately HK\$388,000 (2018: Nil).

IT Services Business

During the Reporting Period, the IT services business contributed a revenue of approximately HK\$25,111,000 (2018: Nil).

Cost of services and goods sold

Coal Mining Business

The cost of sales of the coal mining business for the Reporting Period was approximately HK\$13,007,000 (2018: approximately HK\$11,824,000). The cost mainly comprises direct labor cost, cost for explosive works, depreciation, amortisation and cost of services and materials, etc. The increase in cost of sales was largely in line with the increase in sales volume of coal during the Reporting Period as compared with the previous corresponding period.

Renewable Energy Business

During the Reporting Period, the cost of services of the renewable energy business is approximately HK\$85,000 (2018: Nil).

IT Services Business

During the Reporting Period, the cost of services of the IT services business is approximately HK\$20,114,000 (2018: Nil).

Gross profit

The gross profit of the Group for the Reporting Period increased to approximately HK\$30,459,000 (2018: approximately HK\$4,255,000). It represents an increase of approximately HK\$26,204,000 or approximately 615.84% and gross profit margin increased by approximately 21.38% for the Reporting Period to approximately 47.84% as compared with last correspondence period. Coal mining business contributed approximately HK\$25,159,000 (2018: HK\$ 4,255,000), IT services business contributed approximately HK\$4,997,000 (2018: Nil) and renewable energy business contributed approximately HK\$303,000 (2018: Nil).

Other revenue

The Group's other revenue for the Reporting Period was approximately HK\$3,473,000 (2018: approximately HK\$5,836,000), representing a decrease of approximately HK\$2,363,000 or approximately 40.49% as compared with the last correspondence period. This was mainly due to decrease in net income from selling coal gangue (煤矸石) by approximately HK\$2,269,000.

Administrative and operating expenses

The Group's administrative and operating expenses for the Reporting Period was approximately HK\$19,513,000 (2018: approximately HK\$12,221,000), representing an increase of approximately HK\$7,292,000 or approximately 59.67% as compared with the previous corresponding period. This was mainly due to additional salaries and bonus of approximately HK\$5,356,000 derived from the newly acquired IT services business during the Reporting Period.

Profit for the Reporting Period

Profit of the Group for the Reporting Period was approximately HK\$32,425,000 (2018: profit of approximately HK\$34,573,000), representing a decrease in profit of approximately HK\$2,148,000 as compared with last correspondence period. The decrease in profit was mainly due to (i) fair value loss of convertible bond designated as financial liabilities at FVPL approximately HK\$15,664,000, which was partially offset by (a) gain in fair value of contingent consideration receivables of approximately HK\$1,234,000 (2018: Nil); (b) the decrease of exchange loss approximately HK\$2,071,000; and (c) the increase of gross profit by approximately HK\$26,204,000 as explained above; (ii) the increase in the finance costs of approximately HK\$2,758,000 (2018: Nil); and (iii) the increase of administrative and other expenses by approximately HK\$7,292,000 as explained above.

SEGMENT INFORMATION

Business segment

Information reported to the executive directors of the Company, being identified as the chief operating decision makers (the “CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or services rendered. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable and operating segments are as follows:

- (1) Coal Mining Business segment: mining and sales of coal mine in the Xinjiang of Mainland China;
- (2) Renewable Energy Business segment: service income from renewable energy services in Malaysia; and
- (3) IT Services Business segment: provision of information technology outsourcing, consultancy and technical services in Hong Kong, Singapore, Malaysia and United Kingdom (“UK”).

Segment revenue and results

Segment revenue represents revenue derived from (i) Coal Mining Business, (ii) Renewable Energy Business and (iii) IT Services Business.

(i) Coal Mining Business

Coal mining is the major business of the Group at present. It contributed a revenue of approximately HK\$38,166,000 for the Reporting Period (2018: approximately HK\$16,079,000), representing approximately a 137.37% increase as compared with last corresponding period.

Sales and Production of Coals

During the Reporting Period, the Group sold approximately 0.572 million tonnes of coals (2018: approximately 0.357 million tonnes) with total sales income of approximately HK\$38,166,000 (2018: approximately HK\$16,079,000). Details of sales of coals in tonnes are listed in the below table:

| | Six months ended 30 September | |
|----------------|-------------------------------|----------------|
| | 2019 | 2018 |
| Sales of coals | 572,011 tonnes | 357,372 tonnes |

Coal Sales (tonnes) and Percentage of Coal Sales

| | Coal Sales (tonnes) | Coal Sales in % |
|----------------|------------------------|--------------------|
| Slack Coal | 440,934 | 77.10 |
| Weathered Coal | 131,077 | 22.90 |
| Total | 572,011 | 100.00 |

SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

(ii) Renewable Energy Business

Service income from renewable energy business contributed a revenue of approximately HK\$388,000 for the Reporting Period (2018: Nil).

(iii) IT Services Business

Service income from IT services business contributed a revenue of approximately HK\$25,111,000 for the Reporting Period (2018: Nil).

Reserves and Resources

The Group owns a mining right, which is located in Xinjiang. The estimated remaining coal reserve in Kaiyuan Mine was approximately 5.11 million tonnes as at 30 September 2019 (31 March 2019: approximately 6.20 million tonnes). During the Reporting Period, there were approximately 1.09 million tonnes of coal being extracted (2018: approximately 0.67 million tonnes). The Group also owns an exploration permit, which is also located in Xinjiang. The original exploration permit had expired on 5 April 2017 and a renewal of the permit from 16 May 2017 to 16 May 2019 was granted by the Department of Land and Resources of Xinjiang Uygur Autonomous Region* (新疆維吾爾自治區國土資源廳) (the "Xinjiang Land Department"). Please refer to the paragraph headed "Progress of the Optimization and Upgrading Plan and the Updated Optimization and Upgrading Plan" below for the latest status.

Coal Reserve as at 30 September 2019 = Coal Reserve as at 31 March 2019 – Amount of coal extracted by the Group during the period from 1 April 2019 to 30 September 2019.

The mining right of Kaiyuan Mine was granted by the Xinjiang Land Department from 3 November 2018 to 3 November 2019.

Geographical segment

The geographical location of customers is determined based on the location where the goods are delivered or services are rendered. The Group's revenue and results from operations are mainly derived from activities in Mainland China, Hong Kong and Malaysia. Activities outside these three locations are insignificant. The principal assets of the Group are located in Mainland China, Hong Kong and Malaysia.

MAJOR EVENTS

(A) Progress of the Optimization and Upgrading Plan[#] and the Updated Optimization and Upgrading Plan^{##}

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

MAJOR EVENTS (continued)

(A) Progress of the Optimization and Upgrading Plan[#] and the Updated Optimization and Upgrading Plan^{##} (continued)

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

1. The Company’s Kaiyuan Mine would be restructured and upgraded, and the Exploration Permit granted to the Company would be terminated; and
2. The mining area of the Kaiyuan Mine, where the Company is now conducting mining activities, was proposed to be increased from 1.1596 km² to 4.12 km² (“Kaiyuan Extended Area”), with the estimated coal resources of approximately 131.18 million tonnes.

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

1. First Undisputed Agreement

On 15 August 2017, Zexu Company entered into an undisputed agreement (the “First Undisputed Agreement”) with Xinjiang Jinneng Mining Company Limited (“Jinneng Company”), pursuant to which Jinneng Company should occupy an area of 0.297 km² within the Zexu Mine and could apply to the Xinjiang Land Department to fix such mining area. Jinneng Company should, within 10 working days upon signing the agreement, compensate Zexu Company with an amount of RMB505,197, which was calculated by multiplying the area of 0.297 km² with the agreed compensation amount of RMB486,000 per km² and the agreed compensation multiples of 3.5. The above compensation standard was determined by the Changji Land Department.

2. Second Undisputed Agreement

On 15 August 2017, Zexu Company entered into an undisputed agreement (the “Second Undisputed Agreement”) with Xinjiang Beishan Mining Company Limited (“Beishan Company”), pursuant to which Beishan Company should occupy an area of 2.582 km² within the Zexu Mine and could apply to the Xinjiang Land Department to fix such mining area. Beishan Company should, within 10 working days upon signing the agreement, compensate Zexu Company with an amount of RMB4,391,982, which was calculated by multiplying the area of 2.582 km² with the agreed compensation amount of RMB486,000 per km² and the agreed compensation multiples of 3.5. The above compensation standard was determined by the Changji Land Department.

MAJOR EVENTS (continued)

(A) Progress of the Optimization and Upgrading Plan[#] and the Updated Optimization and Upgrading Plan^{##} (continued)

3. *Third Undisputed Agreement*

On 15 August 2017, Kaiyuan Company entered into an undisputed agreement (the “Third Undisputed Agreement”) with Jinneng Company, pursuant to which Kaiyuan Company should occupy an area of 1.292 km² within the exploration area of the mine of Jinneng Company (the “First Extended Area”) and could apply to the Xinjiang Land Department to fix such mining area. Kaiyuan Company should, within 10 working days upon signing the agreement, compensate Jinneng Company with an amount of RMB2,197,692, which was calculated by multiplying the area of 1.292 km² with the agreed compensation amount of RMB486,000 per km² and the agreed compensation multiples of 3.5. The above compensation standard was determined by the Changji Land Department.

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

4. *Fourth Undisputed Agreement*

On 15 August 2017, Kaiyuan Company entered into an undisputed agreement (the “Fourth Undisputed Agreement”) with Beishan Company, pursuant to which Kaiyuan Company should occupy an area of 0.016 km² within the mining area of the mine of Beishan Company (the “Second Extended Area”) and could apply to the Xinjiang Land Department to fix such mining area. Kaiyuan Company should, within 10 working days upon signing the agreement, compensate Beishan Company with an amount of RMB27,216, which was calculated by multiplying the area of 0.016 km² with the agreed compensation amount of RMB486,000 per km² and the agreed compensation multiples of 3.5. The above compensation standard was determined by the Changji Land Department.

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

The total area of 2.879 km² of Zexu Mine being occupied by Jinneng Company and Beishan Company under the First Undisputed Agreement and the Second Undisputed Agreement respectively represent the whole area of the Zexu Mine. Since the said two agreements had been completed, the Exploration Permit became invalid. Since the Zexu Mine has not commenced mining, it has not generated any revenue for the Group in the past years.

So far as the Company is aware, the First Extended Area and the Second Extended Area being occupied by Kaiyuan Company under the Third Undisputed Agreement and Fourth Undisputed Agreement respectively have not yet commenced mining. After having completed such agreements, the Company was required to go through official procedures with the relevant land and resources departments to obtain the exploration right and then the mining right in respect of these extended areas. When the related exploration right or mining right is obtained, the Company will appoint professional parties to evaluate possible coal reserves and perform valuation on the First Extended Area and Second Extended Area. For accounting purposes, these extended area were booked as “Non-refundable deposits” under non-current assets with value of approximately RMB2,099,000 (equivalent to approximately HK\$2,604,000) in the Group’s consolidated statement of financial position, which, if appropriate, would be transferred to the intangible assets after conclusion is reached with the government departments. Upon obtaining the exploration right or mining right, the Company will discuss again with professional parties (including its valuer and auditor) regarding the possible coal reserves, valuation and accounting treatment of the First Extended Area and Second Extended Area. The Company has not received any update from the relevant government departments since the completion of the Four Undisputed Agreements.

MAJOR EVENTS (continued)

(A) Progress of the Optimization and Upgrading Plan[#] and the Updated Optimization and Upgrading Plan^{##} (continued)

According to the Updated Optimization and Upgrading Plan, the mining area of the Kaiyuan Mine was proposed to be increased from 1.1596 km² to 4.12 km². For the First Extended Area and the Second Extended Area, since they were originally owned by Jinneng Company and Beishan Company respectively, the Third Undisputed Agreement and the Fourth Undisputed Agreement were required to be signed respectively for transfer of such area and as one of the important procedures for obtaining the exploration right and then the mining right. Upon completion of the Third Undisputed Agreement and Fourth Undisputed Agreement, the area of the Kaiyuan Mine will only increase to approximately 2.4676 km². Concerning the outstanding proposed increased area of approximately 1.6524 km² (the “Outstanding Mining Area”), so far as the Company is aware, such area is located next to the Kaiyuan Mine and is currently owned by the government. To obtain the exploration right and then the mining right of such area, the Company is still required to go through official procedures with the relevant land and resources departments.

By a letter dated 6 February 2018 from the Zhundong Economic and Technological Development Zone Division of the Ministry of Land and Resources of Changji Hui Autonomous Prefecture* (昌吉回族自治州國土資源局准東經濟技術開發區分局) (the “Zhundong Division of the Ministry of Land and Resources”), as part of the application, the Zhundong Division of the Ministry of Land and Resources required Kaiyuan Company to sign a deed of undertaking (the “Deed of Undertaking”).

Since the Outstanding Mining Area is a national resource of Mainland China government, the Deed of Undertaking requires Kaiyuan Company to undertake to (1) apply for a bid invitation, auction and listing (the “Bid, Auction and Listing”) for exploration right of the Outstanding Mining Area and to grant state-owned enterprises within the Zhundong Economic and Technological Development Zone* (准東經濟技術開發區) (the “State-Owned Enterprises”) a priority to participate in the Bid, Auction and Listing (the “Priority”); and (2) grant the State-Owned Enterprises who obtain exploration right in the Outstanding Mining Area a right to invest in the mining of the Outstanding Mining Area (the “Right to Invest”). As at the date of the Company’s announcement on 28 March 2018, no concrete terms of the Priority and the Right to Invest have been provided by the Zhundong Division of the Ministry of Land and Resources. Detailed terms and conditions of the possible business cooperation with the State-Owned Enterprises in the Outstanding Mining Area will be subject to further development on the Updated Optimization and Upgrading Plan and government policy.

MAJOR EVENTS (continued)

(A) Progress of the Optimization and Upgrading Plan[#] and the Updated Optimization and Upgrading Plan^{##} (continued)

Upon receiving the Deed of Undertaking, the Company proactively contacted the Zhundong Division of the Ministry of Land and Resources in order to understand or obtain the concrete terms of the Priority and the Right to Invest as stated in the Deed of Undertaking. However, after a few weeks of contact and communication, with the intervening Chinese New Year holiday from 13 February 2018 to 8 March 2018 in Xinjiang, the Zhundong Division of the Ministry of Land and Resources confirmed that it was not able to provide any concrete terms of the Priority and the Right to Invest. In light of these circumstances, the Company sought legal opinion from a Mainland China lawyer in Xinjiang. According to Mainland China legal opinion obtained by the Company:

1. three out of the four companies with mines in the Xiheishan Mining Area had executed the Deed of Undertaking;
2. if Kaiyuan Company did not execute the Deed of Undertaking, the Zhundong Division of the Ministry of Land and Resources will cease to process Kaiyuan Company's application for exploration right and mining right in the Kaiyuan Extended Area; and
3. no concrete terms of the Priority and the Right to Invest had been provided by the Zhundong Division of the Ministry of Land and Resources.

To further facilitate the Updated Optimization and Upgrading Plan and to enable Kaiyuan Company to continue to apply for exploration right and mining right in the Kaiyuan Extended Area, Kaiyuan Company had executed the Deed of Undertaking within 7 days of the date of the Company's announcement on 28 March 2018. The Priority and the Right to Invest may or may not be exercised by the State-Owned Enterprises. The Board considers that any possible business cooperation with the State-Owned Enterprises in the Outstanding Mining Area is to comply with the execution of the Updated Optimization and Upgrading Plan. In the event that the Right to Invest is exercised by the State-Owned Enterprises, the Company will negotiate for fair and reasonable terms taking into account the interests of the Company and shareholders as a whole.

The management of Kaiyuan Company has been communicating and negotiating with the Zhundong Division of the Ministry of Land and Resources in order to protect the Company's best interest in the Outstanding Mining Area.

The application for exploration right and mining right of the Outstanding Mining Area was irrelevant to the renewal of the mining right in the Kaiyuan Mine (the "Mining Right") as stated in the announcement of the Company dated 27 December 2017.

On 30 November 2018 and 5 December 2018, Kaiyuan Company obtained notices and approvals (the "Notices and Approvals") from the Management Committee of Xinjiang Zhundong Economic and Technological Development Zone* (新疆准東經濟技術開發區管理委員會) and Zhundong Division of the Ministry of Land and Resources respectively in respect of the application for the mining right of an annual production volume of 0.9 million tonnes of the Kaiyuan Extended Area ("Kaiyuan Extended Area Mining Right Application") and Kaiyuan Company subsequently submitted the Notices and Approvals to the Changji Land Department on 10 December 2018 for approval.

According to the legal opinion from Mainland China lawyer, Kaiyuan Company was required to go through certain official procedures for the grant of the Kaiyuan Extended Area Mining Right Application, namely, upon obtaining the approval from the Ministry of Land and Resources of Changji Hui Autonomous Prefecture, Kaiyuan Company would need to submit the Kaiyuan Extended Area Mining Right Application to the Xinjiang Land Department for such approval.

MAJOR EVENTS (continued)

(A) Progress of the Optimization and Upgrading Plan[#] and the Updated Optimization and Upgrading Plan^{##} (continued)

As disclosed in the announcement of the Company on 31 December 2018, the Kaiyuan Extended Area Mining Right Application was approved by the Xinjiang Natural Resources Department on 21 December 2018 and the Company was informed that the Xinjiang Natural Resources Department was in the process of approving the grant of new mining permit (the “New Mining Permit”) in respect of the Kaiyuan Extended Area Mining Right.

On 10 May 2019, the Company received a notification dated 8 April 2019 regarding the grant of exploration right for the Outstanding Mining Area with an area of 1.68 km² by the Department of Natural Resources of Xinjiang Uygur Autonomous Region* (新疆維吾爾自治區自然資源廳) (the “Xinjiang Natural Resources Department”) for a period of 3 years from 8 April 2019 to 8 April 2022. Having obtained the Exploration Permit, the Company proceeded to fulfill all the necessary requirements and procedures to obtain the relevant mining permit.

As disclosed in the announcement of the Company on 15 November 2019:

1. Kaiyuan Company has been granted the New Mining Permit in respect of the Kaiyuan Extended Area Mining Right for the Kaiyuan Mine with an enlarged mining area (including the original mining area) from the original mining area of approximately 1.1596 km² (the “Original Kaiyuan Mine”) to 4.1123 km² (the “Enlarged Kaiyuan Mine”). The New Mining Permit is valid for 1 year from 21 December 2018 to 21 December 2019, which covers a mining area of approximately 4.1123 km² with designed capacity of 0.9 million tonnes per annum, representing ten times of the designed annual capacity of 90,000 tonnes of the Original Kaiyuan Mine;
2. according to the New Mining Permit, the estimated coal resources of the approved Kaiyuan Extended Area Mining Right for the mining life of 30 years are 41.6433 million tonnes. The assessed value of the Kaiyuan Extended Area Mining Right by the Xinjiang Natural Resources Department is RMB160,978,000;
3. the New Mining Permit is valid for 1 year and the Kaiyuan Extended Area Mining Right is valid for 30 years. The Company’s legal adviser as to Chinese laws was informed that, in practice, the mining term is usually 1 year and is subject to annual renewal for the mining permit(s) granted in Xinjiang area and Kaiyuan Company has the right to apply for the renewal of New Mining Permit for the remaining period of the Kaiyuan Extended Area Mining Right; and
4. a formal transfer agreement is requested to be entered into between Kaiyuan Company and the Xinjiang Natural Resources Department, which sets out the rights and obligations of the respective parties in respect of the Kaiyuan Extended Area Mining Right, including but not limited to, the amount payable (i.e. the Assessed Value) by the Kaiyuan Company to the Xinjiang Natural Resources Department for the transfer of the Kaiyuan Extended Area Mining Right, the Supplemental Resources Fee and the relevant payment schedule. Such agreement is now placed under the official approval process of the Xinjiang Natural Resources Department.

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

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

MAJOR EVENTS (continued)

(B) Suspension of Production at Kaiyuan Mine

On 1 November 2019, Kaiyuan Company received a reminder notice issued by Production Safety Supervision and Administration Bureau of Xinjiang Zhudong Economic and Technological Development Zone* (新疆准東經濟技術開發區安全生產監督管理局), pursuant to which, Kaiyuan Company suspended the mining operations and sale of Kaiyuan Mine after the expiry of the Mining Right on 3 November 2019 if Kaiyuan Company fails to extend the Existing Mining Permit. The operation of Kaiyuan Mine was suspended following the expiry of the Mining Right on 3 November 2019 (the “Suspension of the Operation”).

As disclosed in the announcement of the Company on 15 November 2019, Kaiyuan Company has been granted the New Mining Permit and accordingly Kaiyuan Company has commenced the mining operations of the Enlarged Kaiyuan Mine.

(C) Acquisition of 90% of the issued share capital of NEFIN Leasing Technologies Limited and the loans

On 10 August 2018, Radiant Day Holdings Limited (“Radiant Day”), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with NEFIN Holding Limited and Mr. Lim Hong Teo (together referred to as the “Vendors of NEFIN Group”), pursuant to which Radiant Day agreed to purchase, and the Vendors of NEFIN Group agreed to sell 90% equity interest in NEFIN Group, at an aggregate consideration of US\$1,350,000 (equivalent to approximately HK\$10,530,000). The Vendors of NEFIN Group have jointly and severally guaranteed that the annual result of NEFIN Technologies for the years ending 30 September 2019, 2020, 2021, 2022 and 2023 would not be less than 5% of the consideration, i.e. approximately HK\$527,000 per annum. The transaction completed on 8 October 2018 as all conditions in the sale and purchase agreement were fulfilled.

NEFIN Group is principally engaged in renewable energy solutions in Malaysia. The directors of the Company are of the view that the acquisition will further enhance the Group’s expansion of innovative and renewable energy business. The acquisition constituted a business combination and had been accounted for using the acquisition method under HKFRS 3 Business Combinations.

(D) Acquisition of 80.86% of the issued share capital of Harbour Group Holdings Limited

On 11 March 2019, (i) Ample Talent Ventures Limited (“Ample Talent”), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, pursuant to which the Vendor has conditionally agreed to sell, and Ample Talent has conditionally agreed to purchase 80% equity interest in Harbour Group Holdings at an aggregate consideration of HK\$35,712,000; and (ii) Ample Talent and Harbour Group Holdings entered into a subscription agreement, pursuant to which Harbour Group Holdings has conditionally agreed to issue and allot to Ample Talent, and Ample Talent conditionally agreed to subscribe for 450 ordinary shares of Harbour Group Holdings, representing approximately 4.5% of the total number of shares of Harbour Group Holdings in issue as at the date of subscription agreement at an aggregate subscription price of HK\$2,008,800. Upon completion of the above transactions, Ample Talent held 80.86% equity interest in Harbour Group Holdings.

MAJOR EVENTS (continued)

(D) Acquisition of 80.86% of the issued share capital of Harbour Group Holdings Limited (continued)

Pursuant to the sale and purchase agreement, the Vendor agreed to guarantee that the audited consolidated net profit generated from operating activities of the Harbour Group in its ordinary and usual course of business, prepared in accordance with HKFRSs (the “Net Profit”), for the years ended or ending 31 December 2018, 31 December 2019 and 31 December 2020 (the “PG Period”) shall be no less than HK\$7,200,000 per annum (the “Guaranteed Profit”). In the event that the Net Profit during the each of the PG Period is less than the Guaranteed Profit, the Vendor unconditionally and irrevocably undertakes and guarantees, as a continuing obligation, to pay the shortfall to the Group under the terms as stipulated in the sale and purchase agreement. The transaction completed on 23 April 2019 as all conditions in the sale and purchase agreement were fulfilled.

Harbour Group consists of Harbour Group Holdings, Harbour Group (Singapore) Pte. Limited, Harbour Group Consulting (UK) Limited, HGH Technology Sdn. Bhd., Mountain Managed Cloud Consulting Limited and Vanguard Business Services Limited. Harbour Group is principally engaged in the provision of information technology outsourcing, consultancy and technical services mainly in Hong Kong with expanding business in United Kingdom, Malaysia and Singapore. The directors of the Company are of the view that the acquisition can broaden the Group’s revenue base and benefit from the diversified return in future. The acquisition constituted a business combination and had been accounted for using the acquisition method under HKFRS 3 Business Combinations.

PROSPECTS

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

The Group has been exploring new markets and seeking to extend its business coverage on technological and renewable energy sectors. The Board is of the view that the acquisition of NEFIN Group and Harbour Group will further enhance the Group’s expansion of innovative and renewable energy business. There will be a reasonable expected amount of expenditure in capital assets, in particular for the new plants and machines for the environmental protection remedial works. Sources of funding are expected to come primarily from the coal sales revenue and also external banking facilities of the Group.

Due to the recent social and political instability in Hong Kong, we foresee the growth on the IT services business would experience a more fluctuating development. The Board would closely monitor the business performance of such segment.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as otherwise disclosed, there were neither significant investments held as at 30 September 2019 nor material acquisitions and disposals of subsidiaries during the Reporting Period.

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2019, the Group had:

- net current assets of approximately HK\$68,091,000 (31 March 2019: approximately HK\$84,255,000).
- cash and cash equivalents of approximately HK\$386,273,000 (31 March 2019: approximately HK\$416,662,000) which comprised restricted bank balances of approximately HK\$73,888,000 and the bank balances were the major components of the Group's current assets of approximately HK\$410,361,000 (31 March 2019: approximately HK\$432,459,000).
- current liabilities of approximately HK\$342,270,000 (31 March 2019: approximately HK\$348,204,000) which comprised mainly trade and other payables of approximately HK\$75,547,000 (31 March 2019: approximately HK\$58,794,000), interest-bearing borrowings of approximately HK\$67,302,000 (31 March 2019: approximately HK\$68,345,000) and convertible bond designated as financial liabilities at fair value through profit or loss of approximately HK\$189,385,000 (31 March 2019: approximately HK\$217,869,000).
- non-current liabilities of approximately HK\$8,244,000 (31 March 2019: approximately HK\$3,257,000).

The Group's gearing ratio was approximately 1.23 (31 March 2019: approximately 1.55). The computation is based on total debt (convertible bond designated as financial liabilities at fair value through profit or loss and interest-bearing borrowings) divided by total equity.

CAPITAL STRUCTURE

The capital of the Group comprises only ordinary shares.

As at 30 September 2019, there were 765,373,584 ordinary shares of the Company in issue.

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

CHARGES ON GROUP'S ASSETS

As at 30 September 2019, the Group had pledged restricted bank balances with carrying amount of approximately HK\$73,888,000 (31 March 2019: approximately HK\$77,612,000) to the bank as a security for interest-bearing borrowings.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue in RMB and Hong Kong dollars and incurs costs in RMB and Hong Kong dollars. The Group is exposed to foreign exchange risk based on fluctuations between Hong Kong dollars and RMB arising from its core operation in Mainland China. The currency exchange risk for the Reporting Period is mainly derived from the net exchange gain on convertible bond designated as financial liabilities at fair value through profit or loss, which is a result from the sustained depreciation of RMB against Hong Kong dollars. In order to minimise the foreign currency risk exposure between these two currencies, the Group maintained cash balances in both currencies that are sufficient to meet three to four months' operating cash flows requirements of the Group.

TREASURY POLICIES

Apart from the issuance of convertible bond at their face value of HK\$200,000,000, the Group finances its operation mainly by internal generated resources.

CONTINGENT LIABILITIES

As at 30 September 2019, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 30 September 2019, the Group had 180 employees (31 March 2019: 82) spreading amongst Hong Kong, Malaysia, Singapore, UK and Mainland China. Total staff costs (excluding directors' emoluments) for the Reporting Period amounted to approximately HK\$24,274,000 (31 March 2019: approximately HK\$10,913,000). Employment relationship has been well maintained by the Group with its employees. The Group has adopted an extensive training policy for its employees. It has also sponsored senior executives for higher education programmes.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Reporting Period (2018: Nil).

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 30 September 2019, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or were deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Interests in shares of an associated corporation of the Company

| Name of director | Notes | Name of associated corporation | Capacity | Number of shares interested | Approximate percentage of the issued share capital of the associated corporation |
|-------------------|-------|---|--------------------|-----------------------------|--|
| Mr. Wang Xiangfei | 1 | New Bright International Development Limited ("New Bright") | Interest of spouse | 3,000 (L) | 30% |

(L) denotes as long position

Notes:

- Ms. Lo Fong Hung is interested in 3,000 shares in New Bright, representing 30% of the issued share capital of New Bright, which currently owns 70% shareholding interests in China Sonangol International Limited ("China Sonangol"). China Sonangol is the holding company of Ascent Goal Investments Limited ("Ascent Goal"), the controlling shareholder of the Company. The shareholding interests of Ascent Goal in the Company is set out in the section headed "Substantial Shareholders' Interests" of this report. Mr. Wang Xiangfei is the husband of Ms. Lo Fong Hung and is deemed to be interested in 3,000 shares of New Bright under the SFO.

Save as disclosed above, as at 30 September 2019, none of the directors or chief executives of the Company, had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or were deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

The Group has not adopted any share option scheme after the expiration of the old share option scheme on 27 August 2013. There was no outstanding share option under the share option scheme as at 30 September 2019.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 September 2019, the following persons (other than directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares or underlying shares of the Company

| Name of shareholder | Notes | Nature of interest | Number of shares held | Number of underlying shares held | Total number of shares and underlying shares held | Approximate percentage of the total number of shares of the Company in issue (Note 7) |
|-----------------------------|-------|-------------------------------------|-----------------------|----------------------------------|---|---|
| Ascent Goal | 1,5 | Beneficial owner | 569,616,589 | 1,000,000,000 | 1,569,616,589 | 205.08% |
| China Sonangol | 2,5 | Interests of controlled corporation | 569,616,589 | 1,000,000,000 | 1,569,616,589 | 205.08% |
| New Bright | 2,5 | Interests of controlled corporation | 569,616,589 | 1,000,000,000 | 1,569,616,589 | 205.08% |
| Ms. Fung Yuen Kwan Veronica | 3,5 | Interests of controlled corporation | 569,616,589 | 1,000,000,000 | 1,569,616,589 | 205.08% |
| Ms. Lo Fong Hung | 4,5 | Interests of controlled corporation | 569,616,589 | 1,000,000,000 | 1,569,616,589 | 205.08% |
| Mr. Lev Leviev | 6 | Beneficial owner | 1,000,000 | – | 1,000,000 | 0.13% |
| | 6 | Interests of controlled corporation | 65,808,000 | – | 65,808,000 | 8.60% |

OTHER INFORMATION (Continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Notes:

1. Ascent Goal was directly interested in 569,616,589 shares and further 1,000,000,000 underlying shares which may be fully allotted and issued if the Convertible Bond are converted at the conversion price of HK\$0.20 per share. These 1,569,616,589 shares were held by Ascent Goal directly as beneficial owner. It includes (i) interests in 569,616,589 shares and (ii) the Convertible Bond giving rise to an interest in 1,000,000,000 underlying shares.
2. Since Ascent Goal is a wholly-owned subsidiary of China Sonangol which is beneficially owned as to 70% by New Bright, the interests of Ascent Goal is deemed to be the interests of China Sonangol and in turn the interests of New Bright under the SFO.
3. Ms. Fung Yuen Kwan Veronica is deemed to have interests in the shares and underlying shares through her 70% interests in New Bright.
4. Ms. Lo Fong Hung is deemed to have interests in the shares and underlying shares through her 30% interests in New Bright.
5. The 569,616,589 shares and 1,000,000,000 underlying shares under the Convertible Bond represent approximately 74.42% and approximately 130.66% of the total number of issued shares of the Company respectively, thus the total of 569,616,589 shares and 1,000,000,000 underlying shares represent approximately 205.08% of the total number of issued shares of the Company. The conversion rights attaching to the Convertible Bond will not be exercised and the Company will not issue the conversion shares if, immediately following the conversion, the Company would be unable to meet the public float requirement under the Listing Rules.
6. For the shares held by Mr. Lev Leviev, of these shares, 36,866,000 shares were held by Africa Israel Investments Ltd., a company controlled by Mr. Lev Leviev through his approximately 48.13% interests in Africa Israel Investments Ltd.; 28,942,000 shares were held by Memorand Management (1998) Ltd., a company controlled by Mr. Lev Leviev through his 100% interests in Memorand Ltd. which holds 100% interest in Memorand Management (1998) Ltd.; and 1,000,000 shares were held by Mr. Lev Leviev directly.
7. The approximate percentage of shareholdings is based on 765,373,584 shares as at 30 September 2019, not the enlarged number of issued shares of the Company upon full conversion of the Convertible Bond.

Save as disclosed above, the directors of the Company are not aware of any other persons who, as at 30 September 2019, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE

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

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

CHANGE IN DIRECTOR'S INFORMATION

Changes in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the publication of the annual report of the Company for the year ended 31 March 2019 are set out below:

1. Subsequent to a review of Directors' duties and responsibilities in the Company as well as the market conditions, the executive Directors, each of Mr. Kwan Man Fai, Mr. Wang Xiangfei and Mr. Wong Sze Wai, is entitled to a monthly allowance of HK\$4,000 for acting as the directors for each of 10 subsidiaries of the Company (NEFIN Group, Harbour Group, and holding companies of NEFIN Group and Harbour Group) respectively, with effect from the date of appointment of directors of each of such subsidiaries and the monthly allowances are not covered by their respective service agreements;
2. The service agreement of the independent non-executive Director, Mr. Pak Wai Keung Martin, entered with the Company expired on 18 September 2019 and his service agreement had been extended for one year commencing on 19 September 2019; and
3. The service agreement of Mr. Wong Sze Wai, entered with the Company expired on 19 November 2019 and his service agreement had been extended for one year commencing on 20 November 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

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

Hong Kong, 20 November 2019

* *English name for identification purpose only.*