



INTERIM REPORT
2012



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

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



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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Lo Fong Hung
(Chairperson & Managing Director)
Wang Xiangfei
Kwan Man Fai

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

Lam Ka Wai, Graham (Chairman)
Wong Man Hin, Raymond
Chan Yiu Fai, Youdey

REMUNERATION COMMITTEE

Wong Man Hin, Raymond (Chairman)
Kwan Man Fai
Lam Ka Wai, Graham
Chan Yiu Fai, Youdey

NOMINATION COMMITTEE

Lo Fong Hung (Chairperson)
Kwan Man Fai
Lam Ka Wai, Graham
Wong Man Hin, Raymond
Chan Yiu Fai, Youdey

COMPANY SECRETARY

Hung Che Wan

AUDITOR

Crowe Horwath (HK) CPA Limited
9/F., Leighton Centre
77 Leighton Road
Causeway Bay, Hong Kong

LEGAL ADVISER

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

PRINCIPAL BANKERS

Hang Seng Bank Limited
Bank of Communications Co. Ltd.

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 1003-1006
10/F., Two Pacific Place
88 Queensway, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda)
Limited
26 Burnaby Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18/F., Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

HONG KONG STOCK EXCHANGE STOCK CODE

1229

WEBSITE

<http://www.nannanlisted.com>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2012

		Six months ended 30 September	
	<i>Notes</i>	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Turnover	3	94,052	90,174
Cost of sales		(69,907)	(81,131)
Gross profit		24,145	9,043
Other revenue		1,247	813
Selling and distribution expenses		(582)	(492)
Administrative expenses		(10,608)	(7,866)
Change in fair value of convertible loan notes	11	3,216	(2,981)
Profit/(loss) before tax		17,418	(1,483)
Income tax expense	4	(1,111)	(1,642)
Profit/(loss) for the period	5	16,307	(3,125)
Other comprehensive income			
Exchange difference on translation of functional currency to presentation currency		(1,230)	6,179
Other comprehensive (loss)/income for the period (net of tax)		(1,230)	6,179
Total comprehensive income for the period		15,077	3,054
Profit/(loss) for the period attributable to:			
– Owners of the Company		16,307	(3,125)
Total comprehensive income for the period attributable to:			
– Owners of the Company		15,077	3,054
Earnings/(loss) per share (expressed in Hong Kong cents)			
– Basic	7	2.13	(0.41)
– Diluted	7	0.83	(0.41)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2012

	<i>Notes</i>	30 September 2012 HK\$'000 (unaudited)	31 March 2012 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	23,066	24,229
Intangible assets		119,207	132,471
Goodwill		–	–
Security deposit		2,788	2,809
		145,061	159,509
Current assets			
Inventories		102,324	38,483
Trade and other receivables	9	9,508	5,054
Cash and cash equivalents		242,097	257,246
		353,929	300,783
Current liabilities			
Trade and other payables	10	55,207	26,743
Amount due to a fellow subsidiary		23	–
Amount due to an intermediate holding company		102	40
Tax payable		2,502	1,076
Obligation under finance lease		41	–
		57,875	27,859
Net current assets		296,054	272,924
Total assets less current liabilities		441,115	432,433
Capital and reserves			
Share capital	12	76,537	76,537
Reserves		122,015	106,938
Total equity		198,552	183,475
Non-current liabilities			
Convertible loan notes designated as financial liabilities at fair value through profit or loss	11	210,673	213,889
Obligation under finance lease		152	–
Provision for close down, restoration and environmental costs		1,937	1,951
Deferred tax liabilities		29,801	33,118
		242,563	248,958
		441,115	432,433

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2012

	Share capital HK\$'000	Share premium HK\$'000 <i>(Note i)</i>	Capital reserve HK\$'000 <i>(Note ii)</i>	Statutory reserves HK\$'000 <i>(Note iii)</i>	Exchange translation reserve HK\$'000 <i>(Note iv)</i>	Special reserve HK\$'000 <i>(Note v)</i>	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2012 (audited)	76,537	191,534	14,882	6,636	14,051	27,143	(147,308)	183,475
Profit for the period	-	-	-	-	-	-	16,307	16,307
Other comprehensive loss for the period	-	-	-	-	(1,230)	-	-	(1,230)
Total comprehensive income (loss) for the period	-	-	-	-	(1,230)	-	16,307	15,077
Appropriation of maintenance and production funds	-	-	-	34,230	-	-	(34,230)	-
Utilisation of maintenance and production funds	-	-	-	(34,230)	-	-	34,230	-
At 30 September 2012 (unaudited)	76,537	191,534	14,882	6,636	12,821	27,143	(131,001)	198,552
At 1 April 2011 (restated)	76,537	191,534	14,882	5,354	5,974	27,143	(189,743)	131,681
Loss for the period	-	-	-	-	-	-	(3,125)	(3,125)
Other comprehensive income for the period	-	-	-	-	6,179	-	-	6,179
Total comprehensive income (expense) for the period	-	-	-	-	6,179	-	(3,125)	3,054
At 30 September 2011 (unaudited)	76,537	191,534	14,882	5,354	12,153	27,143	(192,868)	134,735

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30 September 2012

*Notes:***i) Share premium**

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

ii) Capital reserve

It represents negative goodwill from acquisitions of subsidiaries prior to 1 April 2001.

iii) Statutory reserves*Reserve and enterprise expansion funds*

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

Specific reserve for maintenance and production funds

Pursuant to the relevant PRC regulations for coal mining companies, provision for production maintenance, production safety and other related expenditures are accrued by the Group at fixed rates based on coal production volume (the "maintenance and production funds"). Provision for maintenance and production funds is recognised as expense in profit or loss with a corresponding adjustment to the specific reserve. The maintenance and production funds could 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 back to accumulated losses.

iv) Exchange translation reserve

Exchange translation reserve comprises all foreign exchange differences arising from the translation of functional currency to presentation currency.

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 Co. 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 2012

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(13,915)	(5,699)
Net cash from investing activities	509	492
Net decrease in cash and cash equivalents	(13,406)	(5,207)
Cash and cash equivalents at 1 April	257,246	225,857
Effect of foreign exchange rate changes	(1,743)	3,311
Cash and cash equivalents at 30 September	242,097	223,961

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2012

1. General Information and Basis of Preparation

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

The address of the Company’s registered office is Clarendon House, 2 Church Street, Hamilton HM11 Bermuda and principal place of business is Suites 1003-6, 10th Floor, Two Pacific Place, 88 Queensway, Hong Kong. The condensed consolidated interim financial information is presented in Hong Kong dollars (“HK\$”). As the turnover and results are contributed by the mining and sales of coal business while the other segments remain inactive as a result of strategic shift in the business focus of the Company and its subsidiaries (the “Group”), the directors of the Company are of the view that the functional currency of the Company had been changed from HK\$ to Renmenbi (“RMB”) from 1 April 2010 onwards. The presentation currency of the Company and the Group would remain to be in HK\$ for consistent presentation and the use of investors.

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

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

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

For the six months ended 30 September 2012

2. Principal Accounting Policies

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

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

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

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

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

3. Turnover and Segment Information

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 September 2012

3. Turnover and Segment Information (Continued)

Segment revenue and results

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

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

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

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

For the six months ended 30 September 2012

3. Turnover and Segment Information *(Continued)*

Segment assets

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

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

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

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

For the six months ended 30 September 2012

4. Income Tax Expense

The major components of income tax expense in the condensed consolidated statement of comprehensive income are:

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Tax in other jurisdictions		
– current	4,190	2,204
Deferred tax	(3,079)	(562)
	<hr/>	<hr/>
Income tax expense	1,111	1,642
	<hr/>	<hr/>

Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information as there was no estimated assessable profit derived from Hong Kong for both periods ended 30 September 2012 and 30 September 2011.

Under the Law of the People's Republic of China ("PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods ended 30 September 2012 and 30 September 2011.

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

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

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

For the six months ended 30 September 2012

5. Profit/(Loss) for the Period

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

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

6. Interim Dividend

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

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

For the six months ended 30 September 2012

7. Earnings/(Loss) Per Share

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

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

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

For the six months ended 30 September 2012

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

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

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

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

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

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

* The calculation of the diluted loss per share for the six months ended 30 September 2011 did not assume the conversion of the convertible loan notes since its conversion would result in a decrease in loss per share. The basic and diluted loss per share are the same.

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

For the six months ended 30 September 2012

8. Property, Plant and Equipment

Acquisitions and disposals

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

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

9. Trade and Other Receivables

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

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

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

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

For the six months ended 30 September 2012

10. Trade and Other Payables

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

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

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

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

For the six months ended 30 September 2012

11. Convertible Loan Notes

On 14 March 2008, the Company issued zero-coupon convertible loan notes 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\$0.1 each. The notes are denominated in HK\$ and entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the notes and their 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 loan notes has not been converted, the Company shall repay the principal amount of the outstanding convertible loan notes to Ascent Goal at 13 March 2011.

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity heading ("convertible loan notes reserve"). The effective interest rate of the liability component is 11.14%.

On 11 February 2011, the Company entered into a deed of amendment with Ascent Goal, to extend the maturity date of the convertible loan notes for 36 months and the conversion period was therefore 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 loan notes remain unchanged from the original terms.

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

For the six months ended 30 September 2012

11. Convertible Loan Notes *(Continued)*

Following the change of functional currency from HK\$ to RMB, the board of directors is of the view that the convertible loan notes upon extension of maturity date was no longer convertible at a fixed for fixed relationship. Accordingly, the convertible loan notes was designated as a financial liability at FVTPL and was classified as a non-current liability in the consolidated statement of financial position.

The convertible loan notes was valued by the directors of the Company with reference to a valuation report issued by Asset Appraisal Limited, an independent qualified valuer not connected to the Group. The change in fair value of the convertible note of approximately HK\$3,216,048 have been recognised in the profit or loss for the six months ended 30 September 2012 (six months ended 30 September 2011: HK\$2,981,000).

The assumptions adopted in valuing the convertible loan notes are arrived at by reference to:

- (1) The estimation of risk free rate was arrived at by reference to the yield of Exchange Fund Bill with same duration as the convertible loan notes;
- (2) The estimation of volatility for the underlying share price was arrived at by reference to the historical price movements of those companies engaged in relatively similar industry;
- (3) The discount rate was arrived at based on the Company's credit rating and select comparable corporate bonds with similar maturity and credit risk to derive the range of comparable yield to maturity as of date of valuation and the median range has been adopted.

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

For the six months ended 30 September 2012

11. Convertible Loan Notes *(Continued)*

The fair value of the convertible loan notes was calculated using the binomial model. Major parameters adopted into the model in calculating the fair value are summarised below:

	30 September 2012	31 March 2012
Stock price	HK\$0.77	HK\$0.99
Exercise price	HK\$0.20	HK\$0.20
Risk free-rate	0.249%	0.215%
Discount rate	11.495%	11.444%
Dividend yield	0%	0%
Time to expiration	1.45 years	1.95 years
Stock price volatility	50.00%	56.61%
	HK\$'000	HK\$'000
The movement of the convertible loan notes for the period is set out below:		
Balance as at 1 April	213,889	201,186
Fair value change charged to the profit or loss	(3,216)	12,703
Loss/(Gain) on translation of convertible loan notes denominated in a foreign currency into the functional currency	1,571	(8,457)
Exchange adjustment arising on translation of functional currency to presentation currency and charged to exchange translation reserve	(1,571)	8,457
Carrying amount at 30 September 2012/ 31 March 2012	210,673	213,889

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

For the six months ended 30 September 2012

12. Share Capital

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

13. Related Party Transactions

- (i) Except as disclosed elsewhere in the condensed consolidated interim financial information, the significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Six months ended 30 September	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
China Sonangol International Limited – rental expenses <i>(Note)</i>	240	240

Note: China Sonangol International Limited is an intermediate holding company of the Company.

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

For the six months ended 30 September 2012

13. Related Party Transactions *(Continued)*

(ii) Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management for the six months ended 30 September 2012 and 2011 were as follows:

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term benefits	1,272	600
Post-employment benefits	8	–
	1,280	600

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

14. Operating Lease Commitments

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

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September	31 March
	2012	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Within one year	1,919	794
In the second to fifth years inclusive	2,921	26
	4,840	820

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

The board of directors of the Company (the "Board") was positive about the whole year business result with cautions thinking in mind.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

MINE SALES AND PRODUCTION

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

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

RESERVES AND RESOURCES

The Group owns one mining right and one exploration right in the Xinjiang, PRC including Kaiyuan Open Pit Coal Mine and Zexu Open Pit Coal Mine. The coal reserve remaining of Kaiyuan Mine was 14.0 million tonnes as at 30 September 2012. The coal reserve was calculated by using the following formula, which was in line with the market practice:

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

The Coal Extracts during the period from 1 April 2012 to 30 September 2012 amounted to 2.4 million tonnes, which was verified by Xinjiang Jiangwei Survey Company Limited (新疆江緯測繪有限責任公司), a PRC professional survey company, by using a GPS based 3-D modeling computer program.

The exploration of Zexu Mine was in progress, no development or production activity has taken place at this stage and the production will be commenced in year 2015.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

COST OF SALES

The cost of sales for the period was approximately HK\$69,907,000 (2011: HK\$81,131,000). The cost mainly comprise machine rental cost, direct labor cost, cost for explosive works, amortization of mining right and etc. The decrease in cost of sales during the period was mainly due to decrease in production during the period as compared with last period.

PROSPECTS

The Board believes that the demand for coal from various industries will continue to be robust and is confident our investments can add value for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES (AND RELATED HEDGES)

The Group mainly earns revenue in RMB and incurs cost in RMB and Hong Kong dollars. The Group is exposed to foreign exchange risk based on fluctuations between the Hong Kong dollars and the RMB arising from its operation in the PRC. In order to limit this foreign currency risk exposure, the Group maintained cash balance that approximate three to four months' of operating cash flows.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

CHARGES ON ASSETS

As at 30 September 2012, no trade receivable was pledged to secure the borrowing, and no assets or fund of the Group were pledged to secure general banking facilities granted to the Group (2011: HK\$Nil).

CAPITAL STRUCTURE

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

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

HUMAN RESOURCES

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

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

INTERIM DIVIDEND

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

OTHER INFORMATION

DISCLOSURE OF INTERESTS

Directors' and chief executives' interests and short positions

As at 30 September 2012, the interests and short positions of the directors and chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Interests in 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
Ms. Lo Fong Hung	1	New Bright International Development Limited	Interests of controlled corporation	3,000(L)	30%
Mr. Wang Xiangfei	2	New Bright International Development Limited	Interests of controlled corporation	3,000(L)	30%

(L) denotes as long position

Notes:

- Ms. Lo Fong Hung ("Ms. Lo") is interested in 3,000 shares in New Bright International Development Limited ("New Bright"), representing 30% of the issued share capital of New Bright, which currently owns 70% shareholding interests in China Sonangol International Limited ("China Sonangol"). China Sonangol is the holding company of Ascent Goal Investments Limited ("Ascent Goal"), the controlling shareholder of the Company. 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 and is deemed to be interested in 3,000 shares of New Bright under the SFO.

OTHER INFORMATION *(Continued)*

3. *Ms. Lo, an executive director of the Company, owns 30% of the issued share capital of New Bright which in turn is interested in 70% of China Sonangol. China Sonangol is the holding company of Ascent Goal. Thus, Ms. Lo has an attributable interest in 569,616,589 shares of the Company and a HK\$200,000,000 convertible bond at the conversion price of HK\$0.20 (the "Convertible Bond") giving rise to an interest in 1,000,000,000 underlying shares of the Company.*

Save for those disclosed above, as at 30 September 2012, none of the directors or chief executives of the Company or their respective associates, had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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 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

Pursuant to the share option scheme of the Company approved at the annual general meeting held on 28 August 2003 (the "Share Option Scheme"), the Board may, at its discretion, offer any directors of the Company and eligible participants options to subscribe for shares in the Company subject to the terms and conditions of the Share Option Scheme. The purpose of the Share Option Scheme is to provide incentives to directors of the Company and eligible participants, and it will expire on 27 August 2013.

The Company did not grant any share option under the Share Option Scheme during the six months ended 30 September 2012 and there was no outstanding share option under the Share Option Scheme as at 30 September 2012.

OTHER INFORMATION (Continued)**Substantial shareholders' interests**

As at 30 September 2012, the following persons (other than directors or chief executives 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 issued share capital of the Company (Note 6)
Ascent Goal	1,4	Beneficial owner	569,616,589	1,000,000,000	1,569,616,589	205.08%
China Sonangol	2,4	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
New Bright	2,4	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Ms. Fung Yuen Kwan, Veronica	3,4	Interests of controlled corporation	569,616,589	1,000,000,000	1,569,616,589	205.08%
Africa Israel Investments Ltd	5	Beneficial owner	45,000,000	-	45,000,000	5.88%
Mr. Lev Leviev	5	Beneficial owner	1,000,000	-	1,000,000	0.13%
	5	Interests of controlled corporation	74,000,000	-	74,000,000	9.67%

Notes:

- Ascent Goal was directly interested in 569,616,589 shares and a further 1,000,000,000 underlying shares which may be fully allotted and issued if the Convertible Bond are converted at the conversion price of HK\$0.20. 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.

OTHER INFORMATION *(Continued)*

2. *Since Ascent Goal is a wholly-owned subsidiary of China Sonangol which is beneficially owned as to 70% by New Bright, the interests of Ascent Goal is deemed to be the interests of China Sonangol and in turn the interests of New Bright under the SFO.*
3. *Ms. Fung Yuen Kwan, Veronica is deemed to have interests in the shares and underlying shares through her 70% interests in New Bright.*
4. *The 569,616,589 shares and 1,000,000,000 underlying shares under the Convertible Bond represent 74.42% and 130.66% of the existing issued share capital of the Company respectively, thus the total of 569,616,589 shares and 1,000,000,000 underlying shares represent 205.08% of the existing issued share capital of the Company. The conversion rights attaching to the Convertible Bond will not be exercised and the Company will not issue the conversion shares if, immediately following the conversion, the Company would be unable to meet the public float requirement under the Listing Rules.*
5. *For the shares held by Mr. Lev Leviev, of these shares, 45,000,000 shares were held by Africa Israel Investments Ltd, a company controlled by Mr. Lev Leviev through his 74.89% interests in Africa Israel Investments Ltd; 29,000,000 shares were held by Memorand Management (1998) Ltd, a company controlled by Mr. Lev Leviev through his 99% interests in Memorand Ltd; and 1,000,000 shares were held by Mr. Lev Leviev directly.*
6. *The approximate percentage of shareholdings is based on 765,373,584 shares as at 30 September 2012, not the enlarged issued share capital 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 2012, 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 six months ended 30 September 2012.

OTHER INFORMATION *(Continued)***CORPORATE GOVERNANCE**

To the best knowledge and belief of the directors of the Company, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 September 2012 except for the following deviation:

Under the Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The Company did not have any officer with CEO title. Ms. Lo Fong Hung is currently the Chairperson and Managing Director of the Company. The duties of CEO were carried out by Ms. Lo Fong Hung. In view of the size of operation of the Company, the Board considered that this structure is more suitable for the Company as it can promote the efficient formulation and implementation of the Company's strategies.

CHANGE IN DIRECTORS' EMOLUMENTS AND INFORMATION

Commencing from 1 April, 2012, the directors' fee for chairman, executive directors and independent non-executive directors of the Company have been increased to HK\$60,000 per month, HK\$40,000 per month and HK\$24,000 per month, respectively.

Mr. Wang Xiangfei, an executive director of the Company, ceased to serve as an independent non-executive director, the chairman of the nomination and remuneration committee and a member of the audit and related party transactions control committee of China CITIC Bank Corporation Limited with effect from 7 November 2012, a company listed on the Stock Exchange and the Shanghai Stock Exchange.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, since the date of the 2012 annual report of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company. All directors of the Company have confirmed, following specific enquiry made by the Company, that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2012.

OTHER INFORMATION *(Continued)***AUDIT COMMITTEE**

The audit committee of the Company (the “Audit Committee”) comprises three independent non-executive directors, namely Mr. Lam Ka Wai, Graham, Mr. Wong Man Hin, Raymond and Mr. Chan Yiu Fai, Youdey. The Audit Committee together with the management of the Company have reviewed the accounting principles and practices adopted by the Group and discussed and reviewed the unaudited condensed consolidated interim financial information of the Company for the six months ended 30 September 2012.

By Order of the Board

Wang Xiangfei

Executive Director

Hong Kong, 27 November 2012