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NAN NAN RESOURCES ENTERPRISE LIMITED

南南資源實業有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1229)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

The board of directors (the “Directors”) (the “Board”) of Nan Nan Resources Enterprise Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2023 (the “Reporting Period”) together with the comparative figures for the corresponding period in 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2023

| | Notes | Six months ended 30 September | |
|--|-------|----------------------------------|---------------------------------|
| | | 2023 HK\$'000 (unaudited) | 2022 HK\$'000 (unaudited) |
| Revenue | 4 | 54,100 | 110,712 |
| Cost of services and goods sold | | <u>(46,348)</u> | <u>(49,996)</u> |
| Gross profit | | 7,752 | 60,716 |
| Other revenue | | 1,699 | 1,166 |
| Selling and distribution expenses | | (511) | (482) |
| Administrative and other operating expenses | | (30,160) | (18,984) |
| Exchange loss, net | | (3,170) | (7,442) |
| Finance costs | 5 | (3,097) | (3,967) |
| Change in fair value of convertible bond designated as financial liabilities at fair value through profit or loss (“FVPL”) | | <u>42,293</u> | <u>(263,539)</u> |
| Profit/(Loss) before tax | 5 | 14,806 | (232,532) |
| Income tax credit/(expenses) | 6 | <u>2,565</u> | <u>(9,193)</u> |
| Profit/(Loss) for the period | | <u>17,371</u> | <u>(241,725)</u> |

| | | Six months ended | |
|--|---|-------------------------|-------------------------|
| | | 30 September | |
| | | 2023 | 2022 |
| <i>Notes</i> | | HK\$'000 | HK\$'000 |
| | | (unaudited) | (unaudited) |
| Other comprehensive loss: | | | |
| <i>Item that will not be reclassified to profit or loss:</i> | | | |
| | Exchange difference on translation of the Company's financial statements to presentation currency | 1,235 | 4,722 |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| | Exchange difference on translation of functional currency to presentation currency | <u>(20,366)</u> | <u>(44,352)</u> |
| | Other comprehensive loss for the period | <u>(19,131)</u> | <u>(39,630)</u> |
| | Total comprehensive loss for the period | <u>(1,760)</u> | <u>(281,355)</u> |
| Profit/(Loss) for the period attributable to: | | | |
| | – Owners of the Company | 18,176 | (241,353) |
| | – Non-controlling interests | <u>(805)</u> | <u>(372)</u> |
| | | <u>17,371</u> | <u>(241,725)</u> |
| Total comprehensive loss for the period attributable to: | | | |
| | – Owners of the Company | (1,046) | (280,923) |
| | – Non-controlling interests | <u>(714)</u> | <u>(432)</u> |
| | | <u>(1,760)</u> | <u>(281,355)</u> |
| Earnings/(Loss) per share (expressed in Hong Kong cents) | | | |
| | – Basic | 8 <u>2.38</u> | <u>(31.53)</u> |
| | – Diluted | 8 <u>(0.36)</u> | <u>(31.53)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2023

| | | 30 September 2023 | 31 March 2023 |
|--|--------------|--------------------------------|------------------------------|
| | <i>Notes</i> | <i>HK\$'000</i> (unaudited) | <i>HK\$'000</i> (audited) |
| Non-current assets | | | |
| Property, plant and equipment | | 129,498 | 133,149 |
| Intangible assets | | 179,166 | 188,899 |
| Goodwill | | 4,229 | 4,229 |
| Prepayments for acquisition of property, plant and equipment | 9 | 7,391 | 6,425 |
| Deferred tax assets | | 597 | — |
| | | <u>320,881</u> | <u>332,702</u> |
| Current assets | | | |
| Inventories | | 3,504 | 6,810 |
| Trade and other receivables | 9 | 8,304 | 9,989 |
| Cash and cash equivalents | | 181,023 | 234,113 |
| | | <u>192,831</u> | <u>250,912</u> |
| Current liabilities | | | |
| Trade and other payables | 10 | 49,661 | 63,027 |
| Mining right payables, current portion | | 4,301 | 4,379 |
| Interest-bearing borrowings | 11 | — | 3,477 |
| Lease liabilities | | 1,690 | 1,660 |
| Tax payables | | 2,265 | 9,857 |
| | | <u>57,917</u> | <u>82,400</u> |
| Net current assets | | <u>134,914</u> | <u>168,512</u> |
| Total assets less current liabilities | | <u><u>455,795</u></u> | <u><u>501,214</u></u> |

| | | 30 September | 31 March |
|---|-------------|-----------------------|-----------------------|
| | | 2023 | 2023 |
| | <i>Note</i> | HK\$'000 | HK\$'000 |
| | | (unaudited) | (audited) |
| Capital and reserves | | | |
| Share capital | 12 | 76,537 | 76,537 |
| Reserves | | <u>47,865</u> | <u>48,911</u> |
| Equity attributable to owners of the Company | | 124,402 | 125,448 |
| Non-controlling interests | | <u>1,154</u> | <u>1,868</u> |
| | | <u>125,556</u> | <u>127,316</u> |
| Non-current liabilities | | | |
| Convertible bond designed as financial liabilities of FVPL | | 257,079 | 299,372 |
| Provision for close down, restoration and environmental costs | | 2,649 | 2,814 |
| Mining right payables, non-current portion | | 69,137 | 70,520 |
| Lease liabilities | | 615 | 368 |
| Deferred tax liabilities | | <u>759</u> | <u>824</u> |
| | | <u>330,239</u> | <u>373,898</u> |
| | | <u>455,795</u> | <u>501,214</u> |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2023

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, 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\$”), rounded to the nearest thousand except when otherwise indicated, 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 solutions; and (iii) information technology (“IT”) outsourcing, consultancy and technical services (together referred to as “IT 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 judgements, 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 2023 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 2023 (the “2022/2023 Audited Financial Statements”).

In preparing the 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 2022/2023 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 convertible bond designated as financial liabilities at fair value through profit or loss ("FVPL"), which is measured at fair value.

The accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30 September 2023 are consistent with those followed in the preparation of the 2022/2023 Audited Financial Statements.

The adoption of the new/revised HKFRSs which are relevant to the Group and effective for current period does not have any significant 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.

At the date of authorisation of the condensed consolidated interim financial information, the HKICPA has issued a number of new/revised HKFRSs that are not yet effective for the current period, which the Group has not early adopted. The directors of the Company do not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the results and the financial position of the Group.

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 Mainland China;
- (2) Renewable energy business segment: service income from renewable energy solutions in Malaysia; and
- (3) IT Services business segment: IT consultancy and technical services (including sales of IT hardware products) and IT outsourcing services in Hong Kong, Malaysia, Singapore and the United Kingdom (the "UK").

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 profit earned or loss incurred by each segment without allocation of change in fair value of convertible bond designated as financial liabilities at FVPL and net exchange loss.

Segment assets include property, plant and equipment, intangible assets, goodwill, prepayment for acquisition of property, plant and equipment, deferred tax assets, inventories, trade and other receivables 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 trade and other payables, mining right payables, interest-bearing borrowings, lease liabilities, tax payables, convertible bond designated as financial liabilities at FVPL, 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.

Segment revenue and results

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 2023 (unaudited) | | | | | |
| Revenue from external customers and reportable segment revenue | <u>42,744</u> | <u>1,759</u> | <u>9,597</u> | <u>-</u> | <u>54,100</u> |
| Gross profit | <u>6,252</u> | <u>820</u> | <u>680</u> | <u>-</u> | <u>7,752</u> |
| Selling and distribution expenses | <u>(470)</u> | <u>-</u> | <u>(41)</u> | <u>-</u> | <u>(511)</u> |
| Segment results | <u>5,782</u> | <u>820</u> | <u>639</u> | <u>-</u> | <u>7,241</u> |
| Other revenue | 1,003 | 66 | 43 | 587 | 1,699 |
| Administrative and other operating expenses | (19,698) | (481) | (3,891) | (6,090) | (30,160) |
| Finance costs | (3,042) | - | (25) | (30) | (3,097) |
| Change in fair value of convertible bond designated as financial liabilities at FVPL | - | - | - | 42,293 | 42,293 |
| Exchange loss, net | - | - | - | (3,170) | (3,170) |
| (Loss)/Profit before tax | <u>(15,955)</u> | <u>405</u> | <u>(3,234)</u> | <u>33,590</u> | <u>14,806</u> |
| Income tax credit/(expenses) | <u>2,567</u> | <u>(2)</u> | <u>-</u> | <u>-</u> | <u>2,565</u> |
| (Loss)/Profit for the period | <u>(13,388)</u> | <u>403</u> | <u>(3,234)</u> | <u>33,590</u> | <u>17,371</u> |
| <i>Additional segment information:</i> | | | | | |
| Amortisation | 3,826 | 33 | - | - | 3,859 |
| Depreciation | 5,046 | 762 | 380 | 497 | 6,685 |
| Additions to property, plant and equipment | 9,452 | - | 1,026 | 297 | 10,775 |
| Additions to intangible assets | 5,152 | - | - | - | 5,152 |
| Charge of loss allowance of trade receivables | - | - | 1,056 | - | 1,056 |
| Supplemental environmental related fees | <u>7,043</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,043</u> |

| | 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 2022 (unaudited) | | | | | |
| Revenue from external customers and reportable segment revenue | 94,376 | 1,804 | 14,532 | – | 110,712 |
| Gross profit | 57,451 | 813 | 2,452 | – | 60,716 |
| Selling and distribution expenses | (464) | – | (18) | – | (482) |
| Segment results | 56,987 | 813 | 2,434 | – | 60,234 |
| Other revenue | 529 | 15 | 407 | 215 | 1,166 |
| Administrative and other operating expenses | (8,453) | (292) | (3,351) | (6,888) | (18,984) |
| Finance costs | (3,891) | – | (28) | (48) | (3,967) |
| Change in fair value of convertible bond designated as financial liabilities at FVPL | – | – | – | (263,539) | (263,539) |
| Exchange loss, net | – | – | – | (7,442) | (7,442) |
| Profit/(Loss) before tax | 45,172 | 536 | (538) | (277,702) | (232,532) |
| Income tax (expenses)/credit | (9,201) | 8 | – | – | (9,193) |
| Profit/(Loss) for the period | 35,971 | 544 | (538) | (277,702) | (241,725) |
| <i>Additional segment information:</i> | | | | | |
| Amortisation | 11,896 | 33 | – | – | 11,929 |
| Depreciation | 4,471 | 793 | 379 | 450 | 6,093 |
| Additions to property, plant and equipment | 8,937 | 88 | – | 1,508 | 10,533 |
| Additions to intangible assets | 11,954 | – | – | – | 11,954 |
| Charge of loss allowance of trade receivables | – | – | 193 | – | 193 |

Segment assets and liabilities

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

| | Coal mining business <i>HK\$'000</i> | Renewable energy business <i>HK\$'000</i> | IT Services business <i>HK\$'000</i> | Unallocated <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|--|---|--------------------------------|--------------------------|
| As at 30 September 2023 (unaudited) | | | | | |
| Property, plant and equipment | 100,872 | 26,428 | 1,372 | 826 | 129,498 |
| Intangible assets | 177,871 | 1,295 | – | – | 179,166 |
| Goodwill | – | 4,229 | – | – | 4,229 |
| Other assets | 160,314 | 6,609 | 6,367 | 27,529 | 200,819 |
| Total assets | <u>439,057</u> | <u>38,561</u> | <u>7,739</u> | <u>28,355</u> | <u>513,712</u> |
| Convertible bond designated as financial liabilities at FVPL | – | – | – | (257,079) | (257,079) |
| Mining right payables | (73,438) | – | – | – | (73,438) |
| Other liabilities | (53,506) | (2,169) | (453) | (1,511) | (57,639) |
| Total liabilities | <u>(126,944)</u> | <u>(2,169)</u> | <u>(453)</u> | <u>(258,590)</u> | <u>(388,156)</u> |
| As at 31 March 2023 (audited) | | | | | |
| Property, plant and equipment | 102,580 | 28,830 | 727 | 1,012 | 133,149 |
| Intangible assets | 187,571 | 1,328 | – | – | 188,899 |
| Goodwill | – | 4,229 | – | – | 4,229 |
| Other assets | 208,244 | 6,236 | 6,968 | 35,889 | 257,337 |
| Total assets | <u>498,395</u> | <u>40,623</u> | <u>7,695</u> | <u>36,901</u> | <u>583,614</u> |
| Convertible bond designated as financial liabilities at FVPL | – | – | – | (299,372) | (299,372) |
| Mining right payables | (74,899) | – | – | – | (74,899) |
| Other liabilities | (76,954) | (714) | (1,773) | (2,586) | (82,027) |
| Total liabilities | <u>(151,853)</u> | <u>(714)</u> | <u>(1,773)</u> | <u>(301,958)</u> | <u>(456,298)</u> |

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, 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 property, plant and equipment and prepayments for acquisition of property, plant and equipment is presented based on the physical location of the assets and the geographical location of intangible assets and goodwill is presented based on the location of the respective business operations.

Location of revenue

Revenue from external customers

| | Six months ended | |
|--------------------|------------------|----------------|
| | 30 September | |
| | 2023 | 2022 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| The Mainland China | 42,744 | 94,376 |
| Hong Kong | 6,809 | 10,963 |
| Malaysia | 1,764 | 1,888 |
| Singapore | 2,556 | 2,723 |
| The UK | 227 | 762 |
| | <u>54,100</u> | <u>110,712</u> |

Location of the Specified Non-current Assets

| | 30 September | 31 March |
|--------------------|----------------|----------------|
| | 2023 | 2023 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) |
| The Mainland China | 286,134 | 296,576 |
| Hong Kong | 2,198 | 1,739 |
| Malaysia | 31,952 | 34,387 |
| | <u>320,284</u> | <u>332,702</u> |

Information about major customers

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

| | Six months ended | |
|--|---------------------|-----------------|
| | 30 September | |
| | 2023 | 2022 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Customer A from coal mining business segment | * | 12,136 |
| Customer B from coal mining business segment | * | 16,140 |
| Customer C from coal mining business segment | 6,550 | — |
| Customer D from coal mining business segment | 5,975 | * |
| | <u>5,975</u> | <u>—</u> |

* The corresponding revenue did not contribute 10% or more of the total revenue of the Group during the six months ended 30 September 2023 and 2022.

4. REVENUE

| | Six months ended | |
|---|----------------------|-----------------|
| | 30 September | |
| | 2023 | 2022 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Revenue from contracts with customers within HKFRS 15 | | |
| Coal mining business | | |
| – Sales of coals | <u>42,744</u> | <u>94,376</u> |
| Renewable energy business | | |
| – Service income from renewable energy solutions | <u>1,759</u> | <u>1,804</u> |
| IT Services business | | |
| – Sales of IT hardware products | 2,597 | 6,107 |
| – IT outsourcing services | 2,555 | 5,149 |
| – IT consultancy and technical services | <u>4,445</u> | <u>3,276</u> |
| | <u>9,597</u> | <u>14,532</u> |
| | <u>54,100</u> | <u>110,712</u> |

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 | |
| | 2023 | 2022 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| <i>Timing of revenue recognition:</i> | | |
| – at a point of time | | |
| Sales of coals | 42,744 | 94,376 |
| Sales of IT hardware products | 2,597 | 6,107 |
| | <u>45,341</u> | <u>100,483</u> |
| – over time | | |
| Service income from renewable energy solutions | 1,759 | 1,804 |
| IT outsourcing services | 2,555 | 5,149 |
| IT consultancy and technical services | 4,445 | 3,276 |
| | <u>8,759</u> | <u>10,229</u> |
| | <u>54,100</u> | <u>110,712</u> |

5. PROFIT/(LOSS) BEFORE TAX

This is stated at after charging/(crediting):

| | Six months ended | |
|---|-------------------------|---------------|
| | 30 September | |
| | 2023 | 2022 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Finance costs | | |
| Interest on interest-bearing borrowings | 37 | 579 |
| Interest on mining right payables | 2,989 | 3,319 |
| Interest on lease liabilities | 71 | 69 |
| | <u>3,097</u> | <u>3,967</u> |
| Staff costs (charged to “Cost of services and goods sold”, “Selling and distribution expenses” and “Administrative and other operating expenses”) | | |
| Staff costs (excluding directors’ remuneration) | | |
| Salaries, bonus, allowance and other short-term employee benefits | 14,608 | 15,226 |
| Contributions to defined contribution retirement plan | 1,771 | 1,797 |
| | <u>16,379</u> | <u>17,023</u> |
| Other items | | |
| Amortisation of intangible assets (charged to “Cost of services and goods sold”) | 3,859 | 11,929 |
| Cost of inventories sold | 37,102 | 36,512 |
| Bank interest income (included in “Other revenue”) | (1,559) | (367) |
| Depreciation of property, plant and equipment and right-of-use assets (charged to “Cost of services and goods sold” and “Administrative and other operating expenses”) | 6,685 | 6,093 |
| Charge of loss allowance of trade receivables | 1,056 | 193 |
| Supplemental environmental related fees (charged to “Administrative and other operating expenses”) (Note) | 7,043 | – |

Note:

During the six months ended 30 September 2023, the relevant authorities in Xinjiang Uygur Autonomous Region of the Mainland China have interpreted the existing rules and regulations on the measurement requirements for the imposition of environmental related fees. The implementation of the new measurement requirements required 木壘縣凱源煤炭有限責任公司 (Mulei County Kai Yuan Coal Company Limited*, “Kaiyuan Company”) to pay a higher environmental related fees to the local government.

* English translation for identification purposes only.

Taking into consideration of the potential negative impact on the operation of coal mine from further negotiation with local government about the supplemental environment related fees, Kaiyuan Company decided not to further negotiate with the local government and to make an one-off voluntary settlement of approximately HK\$7,043,000 to the local government.

6. INCOME TAX CREDIT/(EXPENSES)

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

| | Six months ended | |
|---|-------------------------|----------------|
| | 30 September | |
| | 2023 | 2022 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Current tax | | |
| The Mainland China Enterprise Income Tax (“Mainland China EIT”) | | |
| – Current year | – | 10,205 |
| – (Over)/Under-provision in respect of prior year | (1,905) | 1,747 |
| Malaysia corporate income tax (“Malaysia CIT”) | 10 | – |
| | <u>(1,895)</u> | <u>11,952</u> |
| Deferred tax | | |
| Reversal of temporary differences | <u>(670)</u> | <u>(2,759)</u> |
| Total income tax (credit)/expenses | <u>(2,565)</u> | <u>9,193</u> |

The Company is incorporated in Bermuda and is exempted from income tax. The Company’s subsidiaries established in the British Virgin Islands and Samoa are exempted from income tax of the respective jurisdictions.

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 2023 and 2022.

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 2023 and 2022. 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 2023 and 2022.

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 six months ended 30 September 2023 and 2022. During the six months ended 30 September 2023, Malaysia incorporated entities with paid-up capital of Malaysia Ringgit ("RM") 2.5 million or less and gross business income of not more than RM50 million enjoy tax rate of 15% on the first RM150,000 and 17% on the next RM450,000 (30 September 2022: 17% on the first RM600,000) and remaining balance of the estimated assessable profits at the standard rate of 24%.

Singapore corporate income tax ("Singapore CIT") is calculated at the rate of 17% of the estimated assessable profits of the Group's entity in Singapore arising from Singapore.

During the six months ended 30 September 2023 and 2022, Singapore incorporated companies can enjoy 75% tax exemption on the first Singapore Dollars ("S\$") 10,000 of normal taxable income and a further 50% tax exemption on the next S\$190,000 of normal taxable income.

The UK corporate income tax (the "UK CIT") is calculated at a statutory rate of 25% of the estimated assessable profits of the Group's entities in the UK arising from the UK during the six months ended 30 September 2023 (30 September 2022: 19%). During the six months ended 30 September 2023, the Group's entity established in the UK is subject to a 19% small profits rate of corporation tax introduced for companies whose profits do not exceed Great British Pound 50,000 (30 September 2022: Nil).

For the six months ended 30 September 2023, the Mainland China EIT, Hong Kong Profits Tax, Singapore CIT and the UK CIT (30 September 2022: Hong Kong Profits Tax, Malaysia CIT, Singapore CIT and the UK CIT) have not been provided for in the condensed consolidated interim financial information as there was either loss for taxation purpose or no assessable profits being derived from the Mainland China, Hong Kong, Singapore and the UK (30 September 2022: Hong Kong, Malaysia, Singapore and the UK), respectively.

7. INTERIM DIVIDEND

No dividends were paid, declared or proposed during the six months ended 30 September 2023 and 2022. The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2023 and 2022.

8. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

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

| | Six months ended 30 September | |
|---|--|---------------------------|
| | 2023 | 2022 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Profit/(Loss) | | |
| Profit/(Loss) for the purpose of basic earnings/(loss) per share (Profit/(Loss) for the period attributable to owners of the Company) | 18,176 | (241,353) |
| | <u>18,176</u> | <u>(241,353)</u> |
| | | |
| | Six months ended 30 September | |
| | 2023 | 2022 |
| | <i>Number of</i> | <i>Number of</i> |
| | <i>shares</i> | <i>shares</i> |
| | (unaudited) | (unaudited) |
| Weighted average number of ordinary shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share | 763,373,584 | 765,373,584 |
| | <u>763,373,584</u> | <u>765,373,584</u> |

(b) Diluted loss per share

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

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

| | Six months ended | |
|--|-------------------------|----------------------|
| | 30 September | |
| | 2023 | 2022 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Profit/(Loss) for the period attributable to owners of the Company | 18,176 | (241,353) |
| Change in fair value of convertible bond designated as financial liabilities at FVPL | (42,293) | 263,539 |
| Exchange loss on convertible bond designated as financial liabilities at FVPL | 17,759 | 35,707 |
| | <u>(6,358)</u> | <u>57,893</u> |

(ii) Weighted average number of ordinary shares

| | Six months ended | |
|---|-----------------------------|-----------------------------|
| | 30 September | |
| | 2023 | 2022 |
| | Number of | Number of |
| | shares | shares |
| | (unaudited) | (unaudited) |
| 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 bond designated as financial liabilities at FVPL | 1,000,000,000 | 1,000,000,000 |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | <u>1,765,373,584</u> | <u>1,765,373,584</u> |

For the six months ended 30 September 2022, the Company's outstanding convertible bond had an anti-dilutive effect to the basic loss per share calculation. The conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share for the six months ended 30 September 2022. Therefore, the basic and diluted loss per share for the six months ended 30 September 2022 are the same.

9. TRADE AND OTHER RECEIVABLES

| | 30 September 2023 | 31 March 2023 |
|---|--|------------------------------|
| <i>Note</i> | <i>HK\$'000</i> (unaudited) | <i>HK\$'000</i> (audited) |
| Trade receivables | | |
| From third parties | 5,603 | 4,636 |
| Loss allowance | (1,587) | (531) |
| | <u>4,016</u> | <u>4,105</u> |
| | <i>9(a)</i> | |
| Other receivables | | |
| Prepayments, deposits and other receivables | 4,160 | 5,749 |
| Other taxes receivables | 128 | 135 |
| Prepayments for acquisition of property, plant and equipment | 7,391 | 6,425 |
| | <u>11,679</u> | <u>12,309</u> |
| | 15,695 | 16,414 |
| Analysed by: | | |
| Non-current | 7,391 | 6,425 |
| Current | 8,304 | 9,989 |
| | <u>15,695</u> | <u>16,414</u> |

9(a) Trade receivables

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), net of loss allowances was as follows:

| | 30 September 2023 HK\$'000 (unaudited) | 31 March 2023 HK\$'000 (audited) |
|----------------------|---|---|
| Within 30 days | 1,723 | 1,722 |
| 31-60 days | 1,004 | 1,878 |
| 61-90 days | 681 | 344 |
| Over 90 days | 2,195 | 692 |
| Less: Loss allowance | <u>(1,587)</u> | <u>(531)</u> |
| | <u>4,016</u> | <u>4,105</u> |

10. TRADE AND OTHER PAYABLES

The ageing analysis of trade payables (presented based on invoice date) is as follows:

| | 30 September 2023 HK\$'000 (unaudited) | 31 March 2023 HK\$'000 (audited) |
|---|---|---|
| Within 90 days | 6,422 | 5,976 |
| 91-180 days | 1,917 | 1,533 |
| 181-365 days | 773 | 4,778 |
| Over 1 year | <u>2,514</u> | <u>3,045</u> |
| Trade payables | 11,626 | 15,332 |
| Contract liabilities | 1,612 | 4,778 |
| Government levies payable | | |
| – Economic development fees in coal resources areas | 25,199 | 26,769 |
| – Others | – | 459 |
| Accrued expenses | 2,570 | 3,635 |
| Other taxes payable | 1,047 | 3,511 |
| Other payables | <u>7,607</u> | <u>8,543</u> |
| Total trade and other payables | <u>49,661</u> | <u>63,027</u> |

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.

11. INTEREST-BEARING BORROWINGS

| | 30 September 2023 HK\$'000 (unaudited) | 31 March 2023 HK\$'000 (audited) |
|-----------------------------|---|---|
| Current portion | | |
| Interest-bearing borrowings | — | 3,477 |

The interest-bearing borrowings with a clause in their terms that gives the banks 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 banks would exercise their right to demand repayment.

As at 31 March 2023, the interest-bearing borrowings were secured by the mining right with carrying amount of approximately HK\$109,410,000.

As at 31 March 2023, the interest-bearing borrowings were repayable within one year since their inception. The average effective interest rates on the interest-bearing borrowings were ranging from 3.3% to 6.0%. All the interest-bearing borrowings were denominated in RMB. The interest-bearing borrowings were fully settled during the six months ended 30 September 2023.

12. SHARE CAPITAL

| | Number of ordinary shares of HK\$0.10 each | Amount HK\$'000 |
|---|---|----------------------------|
| Ordinary shares | | |
| Authorised: | | |
| Balance as at 1 April 2022 (audited), 31 March 2023 (audited), 1 April 2023 (audited) and 30 September 2023 (unaudited) | 5,000,000,000 | 500,000 |
| Issued and fully paid: | | |
| Balance as at 1 April 2022 (audited), 31 March 2023 (audited), 1 April 2023 (audited) and 30 September 2023 (unaudited) | 765,373,584 | 76,537 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

For the six months ended 30 September 2023 (the “Reporting Period”), the Group was engaged in three business segments, (1) coal mining business; (2) renewable energy business and (3) IT Services (as defined below) business. Our main business is coal mining and sales of coal in Xinjiang Uygur Autonomous Region (“Xinjiang”) of the People’s Republic of China (the “Mainland China”). Xinjiang is remote from major industrial cities in the Mainland China, and hence coal produced in Xinjiang is mainly consumed locally due to the logistic and the 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. (together the “NEFIN Group”) which is principally engaged in renewable energy solutions in Malaysia. We further allocated resources into the solar energy projects since then so as to enable higher efficiency together with the existing solar assets. On 23 April 2019, we completed the acquisition of Harbour Group Holdings Limited (“Harbour Group Holdings”) and its subsidiaries (collectively the “Harbour Group”) which is principally engaged in the provision of information technology (“IT”) outsourcing, consultancy and technical services (together referred to as “IT Services”) mainly in Hong Kong with expanding business in the United Kingdom (“UK”), Malaysia and Singapore. Our Group will 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\$54,100,000 for the Reporting Period (2022: approximately HK\$110,712,000). It represents a decrease of approximately HK\$56,612,000 or approximately 51.1% as compared with the previous corresponding period.

Coal Mining Business

During the Reporting Period, revenue of approximately HK\$42,744,000 of the coal mining business is decreased by approximately HK\$51,632,000 or approximately 54.7% as compared to approximately HK\$94,376,000 in the previous corresponding period. The decrease in revenue was mainly due to the decrease in sales volume and average selling price of coal during the Reporting Period. The Group sold approximately 300,971 tonnes (2022: approximately 585,876 tonnes) of coal during the Reporting Period, decreased by 284,905 tonnes or approximately 48.6% compared to that in the previous corresponding period. The revenue decreased significantly in proportion to the volume decrease, and the average selling prices per ton being decreased by approximately HK\$19.07 or approximately 11.8% to approximately HK\$142.02 per ton during the Reporting Period (2022: HK\$161.09 per ton).

Renewable Energy Business

During the Reporting Period, the renewable energy business recorded a revenue of approximately HK\$1,759,000 (2022: approximately HK\$1,804,000). The decrease in revenue of approximately HK\$45,000 or approximately 2.5% of the renewable energy business was mainly due to the adverse effect of exchange rate during the Reporting Period.

IT Services Business

During the Reporting Period, the IT Services business contributed a revenue of approximately HK\$9,597,000 (2022: approximately HK\$14,532,000). Due to the adverse economic climate in Hong Kong and worldwide, the business of IT services experienced challenges and therefore revenue decreased by approximately HK\$4,935,000 or approximately 34.0% as compared with the previous corresponding period.

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\$36,492,000 (2022: approximately HK\$36,925,000). The cost mainly comprises direct labor cost, cost for explosive works, depreciation, amortisation and cost of services and materials, etc. The slight decrease in cost of sales when compared to the greater drop in revenue during the Reporting Period was mainly a result of the increase of production cost and staff cost during the Reporting Period.

Renewable Energy Business

During the Reporting Period, the cost of services of the renewable energy business is approximately HK\$939,000 (2022: approximately HK\$991,000). The slight decrease in cost of services was mainly due to the effect of exchange rate during the Reporting Period as compared with the previous corresponding period.

IT Services Business

During the Reporting Period, the cost of services and goods sold of the IT Services business is approximately HK\$8,917,000 (2022: approximately HK\$12,080,000). The decrease in cost of sales was in line with the decrease of revenue during the Reporting Period as compared with the previous corresponding period.

Gross profit

The gross profit of the Group for the Reporting Period was approximately HK\$7,752,000 (2022: gross profit of approximately HK\$60,716,000). The gross profit decreased by approximately HK\$52,964,000 or approximately 87.2% and the gross profit margin of approximately 14.3% for the Reporting Period is decreased by approximately 73.9% as compared with the gross profit margin approximately 54.8% for the previous corresponding period. Coal mining business contributed gross profit of approximately HK\$6,252,000 (2022: gross profit of approximately HK\$57,451,000), IT Services business contributed gross profit of approximately HK\$680,000 (2022: approximately HK\$2,452,000) and renewable energy business contributed gross profit of approximately HK\$820,000 (2022: approximately HK\$813,000).

Other revenue

The Group's other revenue for the Reporting Period was approximately HK\$1,699,000 (2022: approximately HK\$1,166,000), representing an increase of approximately HK\$533,000 or approximately 45.7% as compared with the previous corresponding period. This is mainly due to the net effect of higher bank interest income of approximately HK\$1,559,000 (2022: approximately HK\$367,000) and no government grants (2022: approximately HK\$541,000) from the Anti-epidemic Fund under the Employment Support Scheme during the Reporting Period.

Administrative and other operating expenses

The Group's administrative and other operating expenses for the Reporting Period was approximately HK\$30,160,000 (2022: approximately HK\$18,984,000), representing an increase of approximately HK\$11,176,000 or approximately 58.9% as compared with the previous corresponding period. This was mainly due to the combined effect of the increase in supplemental environmental related fees of approximately HK\$7,043,000, and general operating expenses of approximately HK\$2,364,000 derived from coal mining business during the Reporting Period, and the increase in charge of loss allowance of approximately HK\$863,000 derived from IT services business during the Reporting Period.

Profit/Loss for the Reporting Period

Profit of the Group for the Reporting Period was approximately HK\$17,371,000, representing a turnaround from loss of the Group of approximately of HK\$241,725,000 as recorded in the previous corresponding period. Such turnaround to profit was mainly due to the net effect of the following:

- (a) fair value gain of convertible bond designated as financial liabilities at fair value through profit or loss ("FVPL") of approximately HK\$42,293,000 (2022: fair value loss of approximately HK\$263,539,000);
- (b) the net exchange loss of approximately HK\$3,170,000 (2022: approximately HK\$7,442,000);

- (c) the increase of other revenue by approximately HK\$533,000;
- (d) the decrease of gross profit by approximately HK\$52,964,000;
- (e) the increase of administrative and other operating expenses by approximately HK\$11,176,000;
- (f) the decrease of finance costs by approximately HK\$870,000; and
- (g) the income tax credit of approximately HK\$2,565,000 (2022: income tax expense of approximately HK\$9,193,000).

Change in fair value of convertible bond designated as financial liabilities at FVPL

The zero coupon convertible bond (the “Convertible Bond”) of the Company in the principal amount of HK\$200,000,000 was issued on 14 March 2008 with a conversion price of HK\$0.20 per share (subject to adjustments) and maturity date of 17 March 2011 (details of which were set out in the announcements of the Company dated 28 January 2008 and 14 March 2008).

The maturity date of the Convertible Bond was then extended to 13 March 2014, 13 March 2017, 13 March 2020, 13 March 2023 and further extended to 13 March 2026 (details of which were respectively set out in the circulars of the Company dated 21 February 2011, 13 February 2014, 17 February 2017, 24 February 2020 and 16 November 2022 and announcements of the Company dated 11 March 2011, 10 March 2014, 7 March 2017, 11 March 2020 and 9 November 2022).

As at the date of this announcement, the outstanding principal amount of the Convertible Bond is HK\$200,000,000.

The Company conducted valuation for the fair value of the Convertible Bond every financial year after its issuance in compliance with the relevant accounting policies. The Company has engaged ValQuest Advisory (Hong Kong) Limited as its independent professional valuer for the purpose of assessing the fair value of the Convertible Bond as at 30 September 2023. In assessing the fair value of the Convertible Bond, the binomial option pricing model was adopted and factors including stock price of the Company, specific terms and structure of the Convertible Bond, trading conditions and liquidity of the Convertible Bond, and ancillary effects associated with the exercise or conversion and partial conversion of the Convertible Bond were taken into account. The credit rating of our Company is estimated to be B with reference to Standard & Poor’s Corporate Rating Criteria, where Corporate Bond with issuer credit rating from B+ to B- and similar time to maturity were selected, the discount rate is 11.97% (31 March 2023: 13.76%).

The fair values of the Convertible Bond were approximately HK\$257,079,000 and approximately HK\$299,372,000 as at 30 September 2023 and 31 March 2023, respectively. The amounts were assessed and reviewed by the directors of the Company (the “Directors”) and reviewed or audited by the auditor of the Company. According to the relevant accounting policies, the decrease in fair value of the Convertible Bond represents a decrease in liabilities of the Company. The amount of the change in fair value of the Convertible Bond of approximately HK\$42,293,000 was derived by taking the difference between the fair value of the Convertible Bond as at 30 September 2023 and 31 March 2023. The change in fair value of the Convertible Bond was mainly due to the change in the stock price of the Company during the Reporting Period. The closing stock prices of the Company were HK\$0.168 and HK\$0.223 as at 30 September 2023 and 31 March 2023, respectively, and the expected volatility of the stock price of the Company was 109.93% and 108.49% based on the historical price volatility of the Company for the six months ended 30 September 2023 and for the year ended 31 March 2023, respectively.

SEGMENT INFORMATION

Business segment

Information reported to the executive directors, 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 the Mainland China;
- (2) Renewable energy business segment: provision of service for renewable energy solutions in Malaysia; and
- (3) IT Services business segment: provision of IT Services in Hong Kong, Singapore, Malaysia and the 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\$42,744,000 for the Reporting Period (2022: approximately HK\$94,376,000), representing a decrease of approximately HK\$51,632,000 or approximately 54.7% as compared with the previous corresponding period.

Sales and Production of Coals

During the Reporting Period, the Group sold approximately 300,971 tonnes of coals (2022: approximately 585,876 tonnes) with total sales income of approximately HK\$42,744,000 (2022: approximately HK\$94,376,000). Details of sales of coals in tonnes are listed in the below table:

| | Six months ended | |
|----------------|------------------------------|------------------------------|
| | 30 September | |
| | 2023 | 2022 |
| Sales of coals | <u>300,971 tonnes</u> | <u>585,876 tonnes</u> |

Coal Sales (tonnes) and Percentage of Coal Sales

| | Coal Sales | Coal Sales |
|------------|-----------------------|----------------------|
| | (tonnes) | in % |
| Mixed Coal | 289,152 | 96.1% |
| Slack Coal | <u>11,819</u> | <u>3.9%</u> |
| Total | <u>300,971</u> | <u>100.0%</u> |

(ii) Renewable Energy Business

Service income from renewable energy business contributed a revenue of approximately HK\$1,759,000 for the Reporting Period (2022: approximately HK\$1,804,000).

(iii) IT Services Business

Service income from IT Services business contributed a revenue of approximately HK\$9,597,000 for the Reporting Period (2022: approximately HK\$14,532,000).

Reserves and Resources

The Group owns a mining right located in Xinjiang. The estimated remaining reserve in Kaiyuan Open Pit Coal Mine (the “Kaiyuan Mine”) (excluding the Enlarged Kaiyuan Mine (as defined in “Major Events”)) was approximately 5.11 million tonnes as at 31 March 2020.

On 2 December 2019, a transfer agreement was officially passed by Department of Natural Resources of Xinjiang Uygur Autonomous Region* (新疆維吾爾自治區自然資源廳) of the Mainland China (the “Xinjiang Natural Resources Department”) to Mulei County Kai Yuan Coal Company Limited* (木壘縣凱源煤炭有限責任公司) (“Kaiyuan Company”), an indirect wholly-owned subsidiary of the Company. According to the competent person’s report and valuation report of the Enlarged Kaiyuan Mine dated 19 August 2020, the probable reserve in the Enlarged Kaiyuan Mine was approximately 63.48 million tonnes as at the date of acquisition of the Enlarged Kaiyuan Mine.

During the Reporting Period, approximately 0.29 million tonnes of coal was extracted (2022: approximately 0.87 million tonnes).

Total approximate reserve of the mine in Xinjiang as at 30 September 2023 is equivalent to 63.62 million tonnes (i.e. the sum of the estimated remaining coal reserve in Kaiyuan Mine including the Enlarged Kaiyuan Mine) (31 March 2023: approximately 63.91 million tonnes).

Coal Reserve as at 30 September 2023 = Coal Reserve as at 31 March 2023 – Amount of coal extracted by the Group during the period from 1 April 2023 to 30 September 2023.

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 the Mainland China, Hong Kong, Singapore, the UK and Malaysia. Activities outside these five locations are insignificant. The principal assets of the Group are located in the Mainland China, Hong Kong and Malaysia.

* *English translation for identification purpose only.*

MAJOR EVENTS

Acquisition of the New Mining Right of the Enlarged Kaiyuan Mine

As disclosed in the announcements of the Company dated 11 November 2011, 21 March 2012, 15 June 2012, 21 March 2014, 15 August 2017, 28 March 2018, 14 December 2018, 31 December 2018, 15 May 2019, 31 May 2019, 4 November 2019 and 15 November 2019, the Group negotiated with the Xinjiang Natural Resources Department regarding the Optimization and Upgrading Plan[#] relating to the Kaiyuan Mine (i.e. the operating coal mine of the Group in Xinjiang), in particular, to increase the mining area of the Kaiyuan Mine and obtain the corresponding new mining right.

As announced by the Company on 6 December 2019 and 16 March 2020,

- (i) Kaiyuan Company as the transferee and Xinjiang Natural Resources Department as the transferor entered into the transfer agreement (the “Transfer Agreement”) dated 2 December 2019, pursuant to which Kaiyuan Company acquired the new mining right (the “New Mining Right”) of the Kaiyuan Mine with an enlarged mining area (including the original mining area of approximately 1.1596 km²) of 4.1123 km² in Xinjiang (the “Enlarged Kaiyuan Mine”) for 30 years from August 2019 to August 2049 from the Xinjiang Natural Resources Department to conduct mining activities at the Enlarged Kaiyuan Mine at a consideration of Renminbi (“RMB”) 160,978,000 (the “Acquisition”);
- (ii) the estimated coal resources of the Enlarged Kaiyuan Mine are 41.6433 million tonnes for the mining life of 30 years under the Transfer Agreement;
- (iii) the new mining permit (the “New Mining Permit”) in respect of the New Mining Right with mining term of 1 year from 21 December 2018 to 21 December 2019 regarding the New Mining Right was granted to Kaiyuan Company on 3 November 2018, which has been renewed for two years from 21 December 2019 to 21 December 2021. On 10 October 2021, the New Mining Right has been further renewed for ten years from 11 October 2021 to 11 October 2031;
- (iv) Kaiyuan Company has the right to apply for the renewal of New Mining Permit for the remaining period of the New Mining Right under the Transfer Agreement;
- (v) the consideration of RMB160,978,000 shall be settled in cash and paid by Kaiyuan Company to the Xinjiang Natural Resources Department in fifteen instalments: (a) the first instalment in an amount of RMB32,200,000 was paid by Kaiyuan Company; (b) the second to fourteenth instalments in an amount of RMB9,200,000 each shall be paid before 20 November of every year from 2020 to 2032; and (c) the last instalment in an amount of RMB9,178,000 shall be paid before 20 November 2033;

[#] “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.

- (vi) the Acquisition constituted a very substantial acquisition for the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and further information on the Acquisition was disclosed in the circular dated 19 August 2020; and
- (vii) as part of the Transfer Agreement, Kaiyuan Company is required to pay a supplemental resources fee of RMB76,502,500 (the “Resources Fee”) to the Xinjiang Natural Resources Department for 19.8 million tonnes of coal of Kaiyuan Mine, which represented the difference between the accumulated output of 23.65 million tonnes of the Kaiyuan Mine at the end of 2017 and the output of 3.8819 million tonnes (Resources Fee of such output had been paid by Kaiyuan Company to the Xinjiang Natural Resources Department) and recognised in the profit or loss for the year ended 31 March 2020. Based on the advice given by the legal adviser of the Company as to the laws of the Mainland China, other than the payment of the Resources Fee, Kaiyuan Company will not be subject to any fees relating to the original Kaiyuan Mine pursuant to the terms of the Transfer Agreement.

Acquisition of shares and subscription of new shares in Harbour Group Holdings

References are made to announcements of the Company dated 11 March 2019 and 23 April 2019 and the circular of the Company dated 1 April 2019 in relation to the acquisition of shares and subscription of new shares in Harbour Group Holdings.

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 (the “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% shareholding interest in Harbour Group Holdings at a consideration of HK\$35,712,000 (the “Harbour Group Acquisition”); 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 (the “Subscription Price”) of HK\$2,008,800 (the “Subscription”). The Company indirectly interests in 80.86% shares of Harbour Group Holdings in issue upon completion of the Harbour Group Acquisition and Subscription on 23 April 2019.

The consideration for the Harbour Group Acquisition has been settled in cash of HK\$28,512,000 by Ample Talent to the Vendor and the remaining amount of HK\$7,200,000 by means of the issue of the three promissory notes (the “Promissory Note(s)”), each in the principal amount of HK\$2,400,000 by the Company to the Vendor. The Subscription Price has been settled in cash.

Harbour Group consists of Harbour Group Holdings, Harbour Group (Singapore) Pte. Ltd., 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 IT outsourcing, consultancy and technical services mainly in Hong Kong with expanding business in the UK, Malaysia and Singapore. The Directors are of the view that the Harbour Group Acquisition and the Subscription can broaden the Group's revenue base and benefit from the diversified return in future. The Harbour Group Acquisition and the Subscription constituted a business combination and had been accounted for using the acquisition method under HKFRS 3 Business Combinations.

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 31 December 2018 ("FY2018"), 31 December 2019 ("FY2019") and 31 December 2020 ("FY2020", and each such 12-month period, 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 each 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 multiplied by the ratio of 1.13 to the Group by way of cash and/or setting off the same amount from the amount owed by the Company under the Promissory Note(s) issued to the Vendor.

The profit guarantee for FY2018 was met but the profit guarantee for FY2019 and FY2020 was not fulfilled.

As disclosed in the announcement dated 7 April 2020, the shortfall for FY2019 profit guarantee equals to HK\$2,187,091 (rounded to the nearest dollar). Such amount was deducted from the Promissory Note in the principal amount of HK\$2,400,000 and the outstanding amount of HK\$212,909 (i.e. after deduction of the shortfall amount) of the Promissory Note was paid to the Vendor by the Group.

As disclosed in the announcement dated 7 May 2021, the shortfall for FY2020 profit guarantee equals to HK\$2,538,041 (rounded to the nearest dollar). Such amount was deducted from the Promissory Note in the principal amount of HK\$2,400,000 and the outstanding amount of HK\$138,041 after deduction of the Promissory Note was paid by the Vendor to the Group.

PROSPECTS

The Group actively proceeded with the Optimization and Upgrading Plan since 2011 in relation to the New Mining Right of the Enlarged Kaiyuan Mine. The Acquisition enlarged the Group's coal resources and allowed the Group to enhance the development of its sales operations of Kaiyuan Mine in the future. The Directors consider that the transaction is in line with the Group's strategy to expand the coal mining business of the Group. On 10 October 2021, Kaiyuan Company successfully renewed and received the renewed New Mining Permit issued by the Xinjiang Natural Resources Department, pursuant to which the term of the mining right of the Enlarged Kaiyuan Mine is renewed for a period of 10 years from 11 October 2021 to 11 October 2031.

In the coming periods, there will be (i) a reasonable expected amount of expenditure in capital assets, in particular for the new plants and machines for the environmental protection remedial works and (ii) reasonable expenditure for works required by the Safety Bureau to improve safety standard of our coal mine. Sources of funding are expected to come primarily from the coal sales revenue and external banking facilities of the Group.

In addition to coal mining, the Group has been exploring new markets and seeking to develop its business coverage on technological and renewable energy sectors, in particular, the acquisition of Harbour Group in 2019 and NEFIN Group in 2018. It is one of the objectives of the Group to diversify its business portfolio into sectors offering higher growth momentum.

Due to the adverse economic climate in Hong Kong and worldwide, we are facing a difficult business environment, which has negatively impacted our IT Services business in Hong Kong. In the coming periods, we would continue to evaluate our IT Services business model and strategy to ensure they align with current market conditions and future trends.

The board of Directors (the "Board") will continue to use its best endeavors to manage the Group's business portfolio with a view to improving the Group's financial performance and enhancing shareholders' value.

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 2023 nor material acquisitions and disposals of subsidiaries during the Reporting Period.

Save as otherwise disclosed, the Group does not have any future plan 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 2023, the Group had:

- net current assets and net assets of approximately HK\$134,914,000 and approximately HK\$125,556,000, respectively (31 March 2023: net current assets and net assets of approximately HK\$168,512,000 and approximately HK\$127,316,000, respectively).
- cash and cash equivalents of approximately HK\$181,023,000 (31 March 2023: approximately HK\$234,113,000) and the bank balances and cash were the major components of the Group's current assets of approximately HK\$192,831,000 (31 March 2023: approximately HK\$250,912,000). All the cash and cash equivalents are denominated in Hong Kong dollars ("HK\$"), Malaysian Ringgit ("MYR"), Singapore Dollars ("S\$"), Great Britain Pound ("GBP"), United States Dollars ("US\$") and RMB (31 March 2023: HK\$, MYR, S\$, GBP, US\$ and RMB).
- current liabilities of approximately HK\$57,917,000 (31 March 2023: approximately HK\$82,400,000) which comprised trade and other payables of approximately HK\$49,661,000 (31 March 2023: approximately HK\$63,027,000) and tax payables of approximately HK\$2,265,000 (31 March 2023: approximately HK\$9,857,000).

As at 31 March 2023, the interest-bearing borrowing of approximately HK\$3,477,000 is secured by the mining right with carrying amount of approximately HK\$109,410,000.

As at 31 March 2023, the interest-bearing borrowing is repayable within one year since their inception. The average effective interest rates on the interest-bearing borrowing was ranging from 3.3% to 6.0%. All the interest-bearing borrowing is denominated in RMB. The interest-bearing borrowing is fully settled during the six months ended 30 September 2023.

- non-current liabilities of approximately HK\$330,239,000 (31 March 2023: approximately HK\$373,898,000) which comprised Convertible Bond of approximately HK\$257,079,000 (31 March 2023: approximately HK\$299,372,000), non-current portion payable related to mining right payables of approximately HK\$69,137,000 (31 March 2023: approximately HK\$70,520,000).

The Group's gearing ratio was approximately 2.65 (31 March 2023: approximately 2.98). The computation is based on total debt (Convertible Bond, mining right payables, lease liabilities and interest-bearing borrowings) divided by total equity.

CAPITAL STRUCTURE

The capital of the Group comprises only ordinary shares.

As at 30 September 2023, there were 765,373,584 (31 March 2023: 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 2026 by the shareholders of the Company on 9 December 2022.

CHARGES ON GROUP'S ASSETS

As at 31 March 2023, the Group had pledged its mining right with carrying amount of approximately HK\$109,410,000 to the bank as a security for interest-bearing borrowings. During the six months ended 30 September 2023, the interest-bearing borrowings had been fully settled and the mining right had been released. As at 30 September 2023, there were no pledged assets by the Group.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue in RMB, HK\$ and MYR and incurs costs in RMB, HK\$ and MYR. The Group is exposed to foreign exchange risk based on fluctuations of exchange rates of HK\$ and MYR against RMB. The currency exchange risk for the Reporting Period is mainly derived from the exchange difference on convertible bond designated as financial liabilities at FVPL, which is a result from the depreciation of RMB against HK\$. 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 several 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 (31 March 2023: Convertible Bond at face value of HK\$200,000,000 and the interest-bearing borrowings of approximately HK\$3,477,000), the Group finances its operation mainly by internal generated resources.

CONTINGENT LIABILITIES

As at 30 September 2023, the Group did not have any material contingent liabilities (31 March 2023: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2023, the Group had 142 employees (30 September 2022: 145; 31 March 2023: 145) spreading amongst Hong Kong, Malaysia, Singapore, the UK and the Mainland China. Total staff costs (excluding Directors' emoluments) for the Reporting Period amounted to approximately HK\$16,379,000 (30 September 2022: approximately HK\$17,023,000; 31 March 2023: approximately HK\$40,558,000). Employment relationship has been well maintained by the Group with its employees. The Group has adopted an extensive training policy for its employees.

Remuneration policy of the Company is reviewed regularly, making reference to market condition and performance of the Company and individual staff (including the Directors).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Reporting Period (2022: Nil).

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, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") contained in Part 2 of Appendix 14 to the Listing Rules during the Reporting Period, save for the deviation from code provision C.2.1 as disclosed below:

Code provision C.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, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors 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 was conducted by the external auditor of the Company 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.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of The Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.nannanlisted.com. The interim report will be dispatched to the shareholders of the Company and will be published on the above websites in due course.

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

Hong Kong, 22 November 2023

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Kwan Man Fai, Mr. Wong Sze Wai and Mr. Li Chun Fung; and three independent non-executive Directors, namely Dr. Wong Man Hin Raymond, Mr. Chan Yiu Fai Youdey and Mr. Pak Wai Keung Martin.