MEC
MONGOLIA ENERGY CORPORATION
蒙古能源有限公司

Incorporated in Bermuda with limited liability
Stock Code: 276

ANNUAL REPORT 2018

OUR VISION

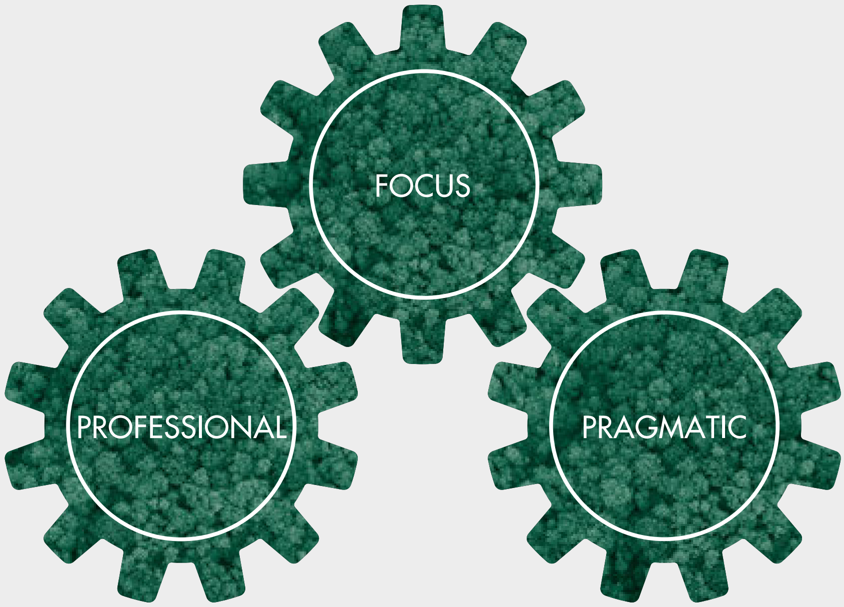
MEC's mission is to acquire, explore, and develop energy and mineral resources related projects in a professional, sustainable, and responsible manner.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Report contains certain forward-looking statements and opinions with respect to the operations and businesses of MONGOLIA ENERGY CORPORATION LIMITED ("**MEC**") and its subsidiaries (the "**Group**"). These forward-looking statements and opinions relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations, and estimates and are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will, or other results of actions that may or are expected to occur in the future. You should not place undue reliance on these forward-looking statements and opinions, which apply only as of the date of this Report. These forward-looking statements and opinions are based on the Group's own information and on information from other sources which the Group believes to be reliable.

Our actual results may be materially less favourable than those expressed or implied by these forward-looking statements and opinions which could affect the market price of our shares. You should also read the risk factors set out under our circulars, announcements, and reports for each of the transactions, which are deemed incorporated into and form part of this Report and as qualification to the statements relating to the relevant subject matters. Neither the Group nor any of its directors or officers shall assume any liability in the event that any forward-looking statements or opinions do not materialize or turns out to be incorrect. Subject to the requirements of the Hong Kong Listing Rules, MEC does not undertake to update any forward-looking statements or opinions contained in this Report.

We aim to become a globally recognised energy and resources company while maximising returns to stakeholders.



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CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present the annual report for the financial year ended 31 March 2018 (the "**Financial Year**") and report to you our performance during this period.

2017 was a year which the world experienced a strong economic pick up. The ascending trend boosted the economies of the United States, China, Europe, Japan and the emerging countries. Most industries from manufacturing, trading to retails had recorded satisfactory performances. Metal, coal and fuel prices regained support by strong economy and demand as a result of supply restraints in the energy sector.

In line with the global economic boom, China's economy grew by an unexpected 6.9 percent last year, outperforming the official target of 6.5 percent. This is the first time in seven years that the pace of growth in China has picked up. The main driver was its strong industry performance, export and resilient property market. Most companies listed in China reaped reasonable returns. The coal and steel industries also enjoyed significant boost from the positive momentum.

Improvement continued in the steel sector of China last year. China's crude steel production in 2017 reached 832 million tonnes, up 5.7 percent compared with that of 2016. It remained first in crude steel production around the globe with a share of 49.2 percent in 2017.

2017 was a year of rebound for the China's coal industry since 2014. China produced 3.45 billion tonnes of coal last year, an increase of 3.2 percent when compared with prior year. The demand of coal was high which the coal export decreased while import increased. Coal prices were strong due to the improvement in the supply-demand balance. As a result of the strong economy and the overcapacity cut policy in China, the demand for coking coal was high and the prices were elevated throughout the Financial Year.

OUR PERFORMANCE

In the first half of the Financial Year, our performance was better than the same period last year as a result of the improved coal market in China. Strong global steel demand and the supply side reform in China had fueled the demand of coking coal. The tide of economic improvement continued in the second half of the Financial Year. Leveraging on the upswinging market conditions, we ramped up our scale of production in response to the demand of our customers. Against this backdrop, we made good progress last year comparing with that of 2016.

We produced approximately 1,328,500 tonnes of run-of-mine ("**ROM**") coal during the Financial Year, which was an increase of 20 percent from 1,103,400 tonnes in the previous financial year. Our sales increased to approximately 594,700 tonnes this year, comparing with 389,250 tonnes of coal to our customers in the last corresponding period.

CELEBRATING 10 YEARS OF COMMITMENT

2017 was the 10th anniversary of our operations in Mongolia.

Ten years ago, the Group made a commitment to develop a large coal mine in a remote region of far western part of Mongolia, among gorges of the Altai Mountains range. Though we had encountered setbacks in our early stage of development, we remained adamant. Today, we have transformed this remote area from a modest exploration operation to a large-scale mining project. We have become the most important private contributor to the regional development in western Mongolia.

Milestones

2007
- acquired the Khushuut Coal Mine and other exploration concessions in Mongolia
- commenced exploration works and planned building the 311 km Khushuut Road connecting the Khushuut mine site to the Xinjiang border, China

2009
- prepared for the commencement of mining operations
- engagement of contractor for pre-mining planning

2010
- engaged a mining contractor for our mining operations

2011
- construction of Khushuut Road completed and received commissioning approval from Mongolian government
- commercial production of coal commenced in December

2012
- mining contractor departed
- resumed management of the Khushuut Coal Mine by our own team and development re-planning

2013
- commenced construction of the on-site dry coal processing plant in May
- commenced building the washing plant in Qinghe County, Xinjiang, China

2014
- completed building and construction of the dry coal processing plant and washing plant and commenced their operations in December
- engaged mining contractors for production; and entered the co-operative agreement with Khovd government, Mongolia

2015
- resumed coal export to Xinjiang

2017
- Uyench customs bonded yard located at a short distance from the Mongolia Yarant border received operation approval from Mongolian government
- MoEnCo LLC received the top 100 business entities award in Mongolia by Mongolian National Chamber of Commence and Industry

OUTLOOK

Last year was a fruitful year for the world's economy; it had a positive impact on most industries including the coal and steel sectors. Most steel and coal firms recorded with outstanding results and performances. However, risk factors which may hamper the trend of economic growth such as the trade tension between the United States and China, the rise in interest rate and tax policies of the United States and geopolitical risks, are looming this year. If these risks factors could not be properly managed, they could pose downside risks to the global economy. Therefore, 2018 will be a year of mixed opportunities and challenges.

According to the estimation of the World Steel Association, Gross Domestic Product ("**GDP**") growth of China in 2018 and 2019 is expected to decelerate mildly. The growth driver will continue to shift toward consumption. According to the China's government work report released earlier this year, China has set its GDP growth target at around 6.5 percent for 2018. China will not emphasize on speed but on improvements in the quality and effect of development. With these focuses China is firm to tackle industrial overcapacity, control and reduce excess debts while pursuing its developments. It has pledged to continue its overcapacity cut policy in 2018 and aims to reduce steel capacity by 30 million tonnes and coal output by 150 million tonnes. We anticipate such measures and policy factors of China will put pressure on the demand and prices of steel which will have a knock-on effect on coking coal.

As the business environment is filled with uncertainties this year, we must remain vigilant in our operations. Our coking coal is characterized by its low ash, low sulphur, low volatile matter and good caking quality which is competitive in the Xinjiang market. Apart from economic and environmental issues, our production and planning are also affected by the policies of Mongolia and China from time to time. Since the beginning of this year, in order to implement The State Council of China's policies on Action Plan On Prevention and Control of Air Pollution for alleviating emissions and promoting better and efficient use of energy, and also pursuant to the Interim Measures for the Administration of Commercial Coal Quality, the border departments of China have exercised stricter control on coal import into China. We had experienced import restrictions in April and May last year and recently we have also encountered stringent import control in border crossing, causing delay of our coal export. Though such policies did not have major impact on our sales and production in the Financial Year, we anticipate such control measures may restrict our further ramping up of production and sales in this coming financial year, and our export volume in the coming year may less than last year. While we will reflect our concerns to the Xinjiang authorities and work with them to find ways of improving the customs clearing and crossing procedures, we will use our best endeavour to achieve our production volume for export this year comparable to last year. However, if the border crossing issue persists, it may also impact our costs and efficiency on production. We will devise a contingency plan on cost control in response to this condition to bring about the most effective way of our operations. We will keep a close watch on the market developments and to adjust our sales and operation plan effectively and flexibly.

ACKNOWLEDGEMENTS

Throughout these challenging ten years since we acquired the Khushuut Coal Mine in 2007, we experienced market ups and downs in the global coal industry. In the initial years, we focused our efforts on mine infrastructures, building the camp site and the Khushuut Road to make our connection and shipping coal out from Mongolia to Xinjiang possible. We then continued building our coal processing infrastructures including the on-site dry coal processing plant to lower our transportation costs and washing plant in Xinjiang to ensure our coal quality. Our team had been working tirelessly and non-stop contributing to the gradual success of our Project all these years, turning the vision we set into reality. The quality of our coking coal products has now received high acclaims and recognition from our customers.

After years of hard work, MoEnCo LLC ("**MoEnCo**"), our main operating subsidiary in Mongolia, has become a prominent enterprise in western Mongolia. It was ranked one of the top 100 business entities in Mongolia in 2017 in terms of annual revenue, taxes paid, number of employees, net profit and asset size. Among the top 100 entities, there are 22 entities from the mining sector. MoEnCo is the only entity in Khovd Province to receive this award. I am very proud of our staff members, and am grateful for this achievement. The credit should go to them.

It has been my privilege to serve the Group during the past ten years. I take this opportunity to show my appreciation to our staff members, both Chinese and Mongolian as a team, for their dedication and contributions to the Group. In addition, I would like to thank our Shareholders and stakeholders who have been very supportive to us throughout.

We will not be complacent about our achievements and will continue to strive for improvement to maintain our competitive edge. Looking ahead, I certainly require your continuous support to steer us forward.

Lo Lin Shing, Simon
Chairman
25 June 2018

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Company is an investment holding company.

The Group's principal business is coal mining and exploration which is operated by our indirect wholly-owned subsidiary in Mongolia, MoEnCo. Our principal project is the Khushuut Coking Coal Project in Western Mongolia. We sell coking coal and thermal coal to our customers in the People's Republic of China ("**PRC**" or "**China**") and Mongolia.

The Khushuut Coal Mine is located approximately 1,350 km west of Ulaanbaatar in the Khovd Province of Western Mongolia. It is about 311 km from the Xinjiang Takeshiken border, connecting by the Khushuut Road we built.

During the Financial Year, approximately 1,328,500 tonnes of ROM coal were produced and approximately 594,700 tonnes of coal, including clean coking coal, raw coal and thermal coal, were sold to our customers during this period.

RESULTS ANALYSIS

Revenue

In the Financial Year, the Group's revenue was HK$637.4 million (2017: HK$321.9 million). The almost double growth in revenue was due to the higher sales volumes and coking coal prices. During the Financial Year, the Group sold approximately 520,400 tonnes (2017: 359,200 tonnes) of clean coking coal and approximately 60,500 tonnes of thermal coal and approximately 13,800 tonnes of raw coal (2017: 29,900 tonnes of thermal coal only). The average selling prices of clean coking coal, thermal coal and raw coal net of sales tax were approximately HK$1,200.0 (2017: HK$888.1), HK$52.8 (2017: HK$95.7) and HK$701.1 (2017: N/A) per tonne respectively.

Cost of Sales

Cost of sales includes mining costs, coal processing costs, transportation costs and other relevant operating expenses. The cost of sales for the Financial Year was HK$322.1 million (2017: HK$198.5 million). The increase was due to the higher sales volume. It was divided into cash costs of HK$315.5 million (2017: HK$191.0 million) and non-cash costs of HK$6.6 million (2017: HK$7.5 million).

Gross Profit

Benefitting from the increase of average realised selling prices and sales volume as well as the implementation of effective measures to lower production costs, the Group's gross profit increased substantially to HK$315.2 million (2017: HK$123.4 million) with a gross profit ratio of 49.5% (2017: 38.3%).

Other Gains and Losses

The net loss was mainly due to the fair value loss of HK$40.6 million arising from an investment in a Hong Kong listed company (2017: fair value gain of HK$38.9 million).

Administrative Expenses

Administrative expenses included the following major items: (1) Directors' remuneration and staff costs of HK$83.0 million (2017: HK$49.9 million). The sharp increase was mainly due to the share options granted in September 2017 where a total of HK$21.9 million equity-settled share-based payment was recognised in the Financial Year (2017: Nil) and increase in supportive staff for mine operation; and (2) Audit, legal and other professional fees of HK$29.3 million (2017: HK$18.7 million). The sharp increase was mainly due to higher legal and professional expenses on the legal proceedings against our former mining contractor.

Changes in Fair Value on Derivative Component of Convertible Notes

The convertible notes issued by the Company in 2014 contain debt and conversion option components. In pursuance of the Company's accounting policies, the fair value of the conversion option components of the convertible notes shall be re-measured at the end of each reporting period. At the end of the Financial Year, an independent valuer was engaged by the Company using binomial valuation model to determine the fair value of the conversion options of the convertible notes. A resulting gain on changes in fair value of HK$234.6 million was recognised (2017: HK$236.0 million). The major inputs into the binomial valuation model were disclosed in the notes to the consolidated financial statements.

Recoverable Amount Assessment on Khushuut Related Assets ("Mine Assets")

At the end of the Financial Year, an independent qualified professional valuer was engaged by the Group to determine the recoverable amount of the Mine Assets.

The recoverable amount of the Mine Assets is based on the discounted cash flow model that incorporates best estimates made by the management of the Group on price trend of coking coal, coking coal grades, production capacity and rates, future capital expenditure, inflation rate and production costs over the life of the Khushuut mine, etc. The cash flow projection covers the expected life of the whole operation. Assumptions about selling prices, operating and capital costs, sales volume, inflation rates and discount rates are particularly important; the determination of the recoverable amount is relatively sensitive to changes in these important assumptions.

Key changes in assumptions used in the discounted cash flow model as at 31 March 2018 and 2017 are set out as below:

	Notes	2018	2017
Discount rate	*(a)*	**20.52%**	16.91%
Current coking coal price per tonne	*(b)*	**US$143**	US$128
Inflation rate	*(c)*	**1.90%**	2.04%

Notes:

*(a) The discount rate is derived from the Group's weighted average cost of capital ("**WACC**") with appropriate adjustments made to reflect the risks specific to the Khushuut Coal Mine. The WACC takes into account both cost of debt and equity, and weighted based on the Group's and comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors and based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of comparable peer companies. The change of discount rate from last year was a combined result of the updates on the WACC including the risk-free rate and other risk premium factors. The risk-free rate adopted was the yield of China 10-year government bond as at 31 March 2018. The risk premium factors were to reflect the business risks of the Khushuut Coal Mine;*

(b) The current coking coal price was updated based on latest sales contract; and

(c) Inflation rate was updated by reference to external market research data.

In pursuant to the recoverable amount assessment, a reversal of impairment amounted to HK$116.5 million was made in the Financial Year (2017: Nil).

Finance Costs

The major components in the finance costs were the effective interest expense on convertible notes and interest on advances from a Director. The interest charge on the debt component of the convertible notes issued by the Company was calculated at an effective interest rate of 19.96% per annum (2017: 19.96%). The interest charge on the advances from a Director was calculated at the Hong Kong prime rate plus 3%, which was same as previous financial years. The ongoing accumulation of interest charge in the debt component of the convertible notes and the increase in loan principal due to a Director accounted for the increase in finance costs during the Financial Year.

MARKET REVIEW

Coking coal, also known as metallurgical coal, is principally used in steel industry. It is a vital ingredient in the steel making process. Therefore, coking coal demand is subject to volatility of steel market which is affected by the world economy. The steel market performance in China in turn affects our production and planning.

The global crude steel production continued to climb in 2017, reaching 1,691 million tonnes ("**Mt**"), which is an increase of 5.3% compared with 2016. According to the recent data of the World Steel Association, crude steel production increased in most regions of the globe last year. China remained the biggest crude steel producing country in the world in 2017, accounting for 49.2% of the world's crude steel production, slightly up 0.2% compared with 2016. The rising trend continues in 2018. In April 2018, China crude steel production reached 76.7 Mt., which is an increase of 4.8% compared with the same period in 2017.

The crude steel output of China in 2017 was approximately 832 Mt, up 5.7% compared with 2016. The increase was mainly attributable to its outstanding economic performance. In 2017, China's economy recorded a solid growth.

Its GDP achieved a 6.9% growth, exceeding the official target growth rate of 6.5% for the whole year. The main drivers for the growth were its strong industry performance and exports, as well as its property developments and vibrant automobile manufacturing sectors. These all contributed to the stable growth of crude steel production. As a result of the improved market conditions and strong domestic demand, steel export of China recorded a year-on-year decline of 30.4% while in steel import with 0.7% year-on-year growth. Benefitting from the strong domestic demand and the supply-side reform, steel prices were elevated last year and most of the steel firms reported with reasonable surge of profits.

Turning to coal in 2017, it was also a satisfactory year for the coal industry in China. According to the data of China Customs, China imported 271 Mt of coal in 2017, up 6.1% compared with the prior period and the aggregate import amount was around US$22.6 billion. Coal export for the year was down 7% to 8.17 Mt while the aggregate export amount was around US$1.1 billion, up 58.1% compared with 2016. In respect of coal production, China produced 3.45 billion tonnes of coal in 2017, an increase of 3.2% when compared with prior year.

Most of the leading Chinese coal producers recorded a surge of profits last year as China's ongoing capacity cut prompted a recovery in coal prices. Leveraging on the strong demand of crude steel output last year, coking coal, the major ingredient in the steel making process, enjoyed a sharp increase in demand and prices. The high domestic demand had driven the import surge of coal. According to the data of China Customs, China imported around 70 Mt of coking coal in 2017, representing an increase of 17.1% compared with prior year and the aggregate import amount surged one fold to around US$9.3 billion. Coking coal export for the year was 2.3 Mt, up 91% and the aggregate export amount was around US$484.5 million, up 259% compared with 2016. These figures demonstrated a strong demand of coking coal as a result of the outstanding economic growth and the vibrant steel industry.

As it is the government policies of China to promote better environment and prevent air pollution, it has implemented the overcapacity cut of coal and steel in recent years. In 2016 and 2017, China successfully reduced about 250 Mt and 150 Mt respectively in its coal production capacity. The coking coal production of China in 2017 was 431 Mt, down 3.3% compared with 2016. The reduction in domestic coking coal supplies under the overcapacity cut policies in China, decrease in coking supply in Australia and the better-than-expected GDP growth in China last year all boosted the coking coal prices. According to China government work report for 2018, China will continue to cut steel capacity by 30 Mt and to remove 150 Mt of coal in 2018.

China is the leading trade partner of Mongolia, and most of the exports of Mongolia are shipped to China. Mongolia is rich in natural resources, in particular, coal. It is the estimated that Mongolia's coal resources are 173 billion tonnes. The vast majority of Mongolia export income comes from copper and coal sales. Mongolia is the second largest coking coal supplier to China, just behind Australia. Last year, Mongolia exported 33.4 Mt of coal to China, of which 26.3 Mt were coking coal. Due to the overcapacity cut, environmental reforms and geological proximity, we anticipate that Mongolia will continue to retain its advantageous position of supplying coal to China.

China's 2017 economic growth was faster and better than anticipated. It prompted a vibrant coal and steel market despite its environmental policies. As an economic growth engine of the world, China will continue to rebalance its economy away from investment towards domestic consumption in 2018. However, 2018 will be a totally different year as a lot of political and economic uncertainties are looming around the globe. Whether the market prosperity continues in 2018 will remain to be seen.

BUSINESS REVIEW

Coal Sales

During the Financial Year, we sold approximately 520,400 tonnes of clean coking coal (after washing) (2017: 359,200 tonnes), and 13,800 tonnes of raw coking coal (without washing) (2017: Nil) to our customers in Xinjiang, China.

Apart from coking coal, we also supplied approximately 60,500 tonnes of thermal coal to the local community in Mongolia and China during the Financial Year (2017: 29,900 tonnes).

Coal Production

During the Financial Year, approximately 3,006,000 bank cubic meters ("**BCM**") of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2017: 1,400,100 BCM).

Production of coking coal (before processing) and thermal coal were approximately 779,500 tonnes and 549,000 tonnes respectively (2017: 732,200 tonnes and 371,200 tonnes).

Coal Processing

During the Financial Year, approximately 804,900 tonnes of ROM coal were processed by the dry coal processing plant, producing approximately 625,200 tonnes of raw coking coal. The average recovery rate was 77.7%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customer.

In Xinjiang, approximately 646,500 tonnes of raw coking coal were processed by the washing plant, producing approximately 547,400 tonnes of clean coking coal. The average recovery rate was 84.7%.

Coal Shipping

Apart from the field work contractors, we hired external coal trucking companies with heavy-duty trucks to provide coal transportation services for our coal export.

To improve raw coal shipping logistic from Khushuut to Xinjiang, we set up a new customs bonded yard close to Xinjiang border. Our new Uyench customs bonded yard ("**Uyench CBY**") is located 223 km of the Khushuut Road from the Khushuut Coal Mine. The Uyench CBY started to operate for coal delivery to Xinjiang since January 2018. Approximately 228,100 tonnes of raw coal were shipped from the mine to Uyench CBY for export to Xinjiang in the Financial Year.

Customers and Sales

As the market fundamentals had been improved during the Financial Year, we were working to expand our customer base apart from our major customer.

We had entered into a master coal supply contract for 2017 with our major customer in Xinjiang (raw coal without processing). The actual sales price and the quantity to be delivered had to be negotiated and mutually agreed from time to time, monthly in general, between the parties during this period. Under the said master contract, the clearing was based on the actual clean coking coal delivered after washing, and on this basis, we sold 221,400 tonnes of clean coking coal to this customer during the Financial Year. It accounted for approximately 44.2% of our revenue in the Financial Year.

In respect of our other customers, we negotiated the sales and delivery orders shortly before delivery under the then prevailing market price and our quantity of coal available.

In January 2018, we concluded a new master coal supply contract with our major customer in Xinjiang. Similar to the 2017 contract, the actual sales price and quantity to be delivered have to be negotiated and mutually agreed from time to time between the parties during this period. Notwithstanding the signing of the new coal supply contract with our major customer, our production and shipment of coal are closely linked to the market and other conditions, and shipment negotiations between us and the major customer from time to time. We will closely monitor the developments and adjust our operation schedule from time to time.

Apart from our major customer for coking coal, we had five other customers in Xinjiang during the Financial Year.

Licences

During the Financial Year, we maintained nine mining licences, of which eight are for our Khushuut operations, and two exploration licences. Please refer to the section headed "EXPLORATION AND MINING CONCESSIONS OF THE GROUP" in this report for further details.

Legal and Political Aspects

In late 2017 and early 2018, the Government of Mongolia announced the year of 2018 as "Year of Responsibility". It stipulates measures to form a more efficient and productive partnership between government and private industry, aiming, among others, to reduce and eliminate the complicated bureaucracy which is detrimental to private businesses, especially at the local government level.

The Mongolian government remains supportive of its coal mining industry. For example, several important measures promoting coal exports to China have been taken, including negotiations with the relevant authorities in the PRC to expedite the procedures of border passing and customs clearance, resolution of the social insurance problem for individual coal truck drivers operating in the country's southern provinces, and a number of other actions. In April 2018, the Parliament of Mongolia ratified the "Treaty on International Auto Transportation through Asian Road Network", signed between the PRC, Mongolia and Russian Federation.

In March 2018, the Prime Minister of Mongolia and Finance Minister presented to the public the proposed new edition of General Tax Law and other tax laws. Although they suggested no change to the existing major tax rates, proposed changes on reporting, tax payment procedures and miscellaneous taxes were introduced notably to support small and medium enterprises and foreign investment companies. It is expected that the Parliament will discuss the new tax bills by its fall 2018 session, and the new tax regime would become effective from January 2019. Presently, we consider there would be no significant impact on our operations in Mongolia.

An important new development concerning the minerals licence issuance procedures was adoption of the regulation on "Minerals licence issuance tenders" enacted in February 2018. During fall of 2017, the Minister of Mining and Heavy Industry temporarily ceased the issuance of new exploration licences. Subsequently in February 2018, a decision was issued to reinstate the issuance of exploration licences, but only under openly announced tender instead of the previous issuance principle of "first come – first serve" basis.

In China, air pollution has always been a serious problem and threat to the environment. It is mainly connected to China's addiction to coal burning, and its energy-intensive way of industrial growth. In 2013, The State Council of China issued the "Action Plan On Prevention and Control of Air Pollution" to control air pollution of China and for alleviating emissions and promoting better and efficient use of energy as part of the environmental protection measures. The goal is to improve the overall national air quality and to reduce the length of heavily pollution days. In 2014, China promulgated the "Interim Measures on Commercial Coal Quality Management" to complement the clean air policies by requiring, among others, stringent coal import inspection and supervision to ensure the quality of imported coal. Although the air quality has seen a tremendous improvement after the implementation of the green policies, China spares no effort in further tightening import control on coal since last year. More stringent checks and control have been carried out in certain Chinese ports and borders to prevent low quality coal from importing into China. As a result of such practice, trucks exporting coal from Mongolia to China take longer time at the China Mongolia borders to get cleared. From January to May this year, Mongolia exported 14.31 million tonnes of coal which is a drop of 5.12% from the same period last year.

Environmental policies, relevant laws and regulations affecting us

As a responsible corporation, environmental stewardship is one of the pillars of our sustainable business strategy to safeguard people and the environment, and to create enduring values for our customers, employees, host communities, shareholders, and business and supply chain partners. The Group has adopted an environmental policy focusing primarily on, among others, complying with the host-country legislation and regulations; establishing management systems and programs relevant to our environmental risks to prevent, reduce or mitigate impacts at all stages of our operations; regularly assessing our performance through evaluating our business processes and practices and monitoring the surrounding environment in which we operate.

Our business operation is mainly carried out by MoEnCo in Mongolia. MoEnCo has a detailed environmental assessment of the Khushuut Mine covering five years environmental management and protection related matters in our mine operation, and based on such documentation, the Ministry of Environment and Tourism of Mongolia will approve an annual environmental plan while monitoring the implementation of the previous year's environmental plan through an implementation report submitted by MoEnCo. MoEnCo has an environmental management team responsible for implementing its environmental duties and responsibilities under the directions of its mining director and deputy health, safety and environmental manager. The legal department of MoEnCo is responsible for recording compliance issues while monitoring timely execution and submission of the environmental reports and plans to the relevant Mongolian authorities on an annual basis.

When preparing its annual Environmental Management Plan ("**EMP**"), MoEnCo works closely with the local soum government and provincial environmental agencies to reflect their proposals in the EMP. We also conduct joint assessment of the execution of each EMP. The implementation of the 2017 EMP was discussed by a working group appointed by the Khovd province Governor's Office in December 2017, where the working group assessed MoEnCo's performance of the 2017 EMP as 'adequate'. We submitted the 2017 Environmental Management Report with the working group assessment to the Ministry of Environment and Tourism which approved the report in February 2018.

In December 2017, the Ambient Air Quality and Pollution Survey in the vicinity of Khushuut Mine was completed by the Institute of Meteorology, Hydrology and Environment, Khovd Province Environmental Office and Central Laboratory for Environmental Measurements which issued their professional opinions. The study concluded that fine particle pollutants were found at some points, but sulfur dioxide, nitrogen dioxide and heavy metals content in the air did not exceed the tolerable level specified in the standard.

The Group has also joined the project on "Reducing land degradation and adverse impact in the Western provinces of Mongolia and officering the corresponding protection" funded by the United Nations ("**UN**"). The UN Representative Office in Mongolia, Ministry of Environment and Tourism of Mongolia and MoEnCo have signed a Memorandum of Understanding and now working together for the environmental rehabilitation measures at Khushuut.

The relevant laws and regulations having significant impact on our operation include Minerals Law and various laws on the environmental protection such as Law on Environmental Protection, Law on Environmental Impact Assessment, the Mining Prohibition Law ("**MPL**"), etc. So far as the Board and management are aware, MoEnCo has generally complied with its environmental duties as required by the Mongolian laws and regulations during the Financial Year. More details are set out in the Environmental, Social and Governance Report.

Key stakeholders relationship

Engaging with and building relationships with all our stakeholders is the key to sustaining our business. Our stakeholders are the individuals, groups or organisations that affect and are affected by our business activities and performance. The stakeholders of the Group include our shareholders, employees, customers, contractors, various Mongolian governmental authorities (such as the Ministry of Environment and Tourism, the Ministry of Mining, the State Specialized Inspection Agency, the Mineral Resources and Petroleum Authority of Mongolia ("**MRPAM**") and their local governmental agencies), various Chinese governmental authorities (such as the Environmental Protection Bureau, the Safe Production Supervision Administration, the General Administration of Customs and their local governmental agencies), and local communities. In general, we maintain a good relationship with them.

There was no material and significant dispute between the Group and its customers, suppliers and other business partners regarding our operation in the Financial Year.

Legal disputes with Thiess Mongolia LLC (formerly Leighton LLC) ("Thiess")

Two writs of summons were taken out by Thiess in 2013 claiming the Company for outstanding contractor fees of MNT12.2 billion (approximately HK$57.3 million) and MNT7.7 billion (approximately HK$36.4 million) respectively.

In May 2015, Thiess applied to the Court to amend its Statements of Claim under the two writs according to its amended Statements of Claim:

(i) the amount of the first writ claimed has changed from MNT12.2 billion (approximately HK$57.3 million) to US$9.04 million (approximately HK$70.1 million); and

(ii) the amount of the second writ claimed has changed from MNT7.7 billion (approximately HK$36.4 million) to US$16.6 million (approximately HK$128.8 million).

Subsequently the two actions had been consolidated. Under the consolidated Statement of Claim, Thiess had substantially reduced its claim to US$13.5 million (approximately HK$105.6 million) by giving up its alleged service fees after October 2012.

We filed our Re-amended Defence in October 2017. Thiess filed its Re-amended Reply in February 2018. Supplemental witness statements have been exchanged. Next, it will come to the exchange of independent expert reports.

We will continue to pursue the case to protect our best interests.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the Financial Year, the Group recorded net cash inflows before movements in working capital of HK$207.4 million (2017: HK$57.7 million). The movements in working capital reduced the net cash inflow from operations to HK$115.9 million (2017: net cash used in operations of HK$142.6 million). The borrowings of the Group as at 31 March 2018 were mainly comprised convertible notes and advances from Mr. Lo in aggregate of HK$4,780.0 million (2017: HK$4,375.1 million). The convertible notes are non-current liabilities and the maturity date is 21 November 2019. The advances from Mr. Lo are current liabilities. As at 31 March 2018, the cash and bank balances of the Group were HK$83.4 million (2017: HK$14.2 million) and the liquidity ratio was 0.28 (2017: 0.23). At the end of the Financial Year, the Group had net current liabilities of approximately HK$1,477.2 million (2017: HK$1,444.6 million). Mr. Lo commits to offer his financial support to the Group during and after the Financial Year. Accordingly, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future.

Property, Plant and equipment

During the Financial Year, the Group had incurred capital expenditures of approximately HK$60.9 million (2017: HK$9.8 million) mainly in building a new Uyench CBY and the acquisition of heavy duty trucks and loaders to support our expanding coal shipping operations.

Trade and Bills Receivables

As at 31 March 2018, trade and bills receivables increased to approximately HK$204.3 million (2017: HK$159.6 million) due to the increase in sales volume. The Group allows a credit period of 30 to 60 days for trade receivables and bills receivables should be with maturity days of 180 days or less. As at 31 March 2018, the majority of the trade receivables were within our credit period. For the bills receivables, they were non-interest bearing bank acceptance bills with settlement being guaranteed by the licensed banks in the PRC. Accordingly, the Directors considered that allowance for doubtful debt was not required in the Financial Year.

Held-for-trading investments

As at 31 March 2018, the fair value of the held-for-trading investments was HK$115.0 million (2017: HK$156.7 million), which was approximately 11.3% (2017: 22.0%) of the total assets of the Group. It represents the Group's interest in Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "**Jade Bird**"), a company listed in Hong Kong. The principal activities of Jade Bird and its subsidiaries are engaging in the technology research, development, marketing and sale of embedded system products and related products in security and fire alarm systems. The Group's investment is approximately 6.13% of the total issued share capital of Jade Bird. During the Financial Year, the Group did not receive any dividend from Jade Bird.

The decrease in carrying value of the held-for-trading investments was mainly due to the fair value loss of HK$40.6 million (2017: fair value gain of HK$38.9 million).

Charge on Group's Assets

There was no charge on the Group's assets as at 31 March 2018 (2017: Nil).

Gearing Ratio

As at 31 March 2018, the gearing ratio of the Group was 4.7 (2017: 6.2) which was calculated based on the Group's total borrowings to total assets.

Foreign Exchange

The Group mainly operates in Mongolia, Hong Kong and Mainland China. The Group's assets and liabilities are principally denominated in Mongolian Tugrik, Hong Kong dollar, Renminbi and United States dollar. The Group does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure and consider hedging significant currency exposure should the need arise.

Contingent Liabilities

As at 31 March 2018, the Group's material contingent liabilities were related to legal claims made by a former mining contractor in 2013. Please refer to the Note 34 to the consolidated financial statements.

RISK FACTORS

The Group's business may from time to time face with certain risk factors; some of them may not be anticipated by or known to the Group. While the Group has adopted its business strategies and planning by taking into account the foreseeable risks and measures in response once such unfavourable event happens, shareholders and investors should aware that the business of the Group may still be impacted. Although it is not possible to list out a complete list of risk factors, the major risks include, among others, the following:

Cyclical nature of coal markets and fluctuations in coal prices

The revenue of our operation depends on successful commercial production of coal products in our concession areas. Therefore, our future business and results of operations are dependent on the supply and demand of coal globally, in particular, the PRC.

The fluctuation in supply and demand of coal can be caused by numerous factors beyond the Group's control, which include but not limited to:

(i) global and domestic economic and political conditions and competition from other energy sources; and

(ii) the rate of growth and expansion in industries with high demand for coal, such as steel and power industries.

In 2017, the coking coal demand surged and its prices remained elevated on the high side due to the China national policy of supply side reform. However, there is no assurance that the demand of the PRC, which we assume as our major market, for coal and coal related products will continue to grow, or that the demand for these products will not experience excess supply. The trade tension between Untied States and China and the imposition of steep tariffs on import steel products by United States may have an adverse impact on the stable market conditions and economy worldwide.

Development of a mining project may take time and factors affecting its development

In a nutshell, development of a mining project will take time, often through years, and this includes going through the process of reconnaissance, exploration, deposit analysis, and mine planning. There is no guarantee that a planned development may overcome all challenges encountered during these processes. Ultimate commercial viability of a project will depend on whether the deposit is of the desired attributes, proximity to potential markets, availability of infrastructure and transportation networks, labour costs and availability, competition for other energy resources and global economic conditions. Government regulations and policies such as taxes and royalties may also have a direct or indirect impact on encouraging or discouraging investment in the mining sector.

Not all planned projects may achieve the intended economic benefits or demonstrate commercial feasibility

In the course of development of a project, the Group may change its planning from time to time due to some unforeseeable circumstances. When this happens, the outcome, prospect, or financial position may be significantly affected.

Significant and continuous capital investment

Mining business requires significant and continuous capital investment. Planned mine exploration and coal production projects may not be completed as planned, may exceed the original budgets and may not achieve the intended economic results or commercial viability.

Actual capital expenditures for the projects may also differ from planned in the course of development. Such factors include locality and geology of the mine sites, method of excavation, availability of transportation networks, ancillary infrastructure requirements and distance to the markets, etc. Even a mine is potentially rich in natural resources, whether it is attractive for commercial development still depends on a variety of factors.

Policies and regulations

Mining business is subject to extensive governmental regulations, policies, and controls. There can be no assurance that the relevant governments will not change such laws and regulations, or impose additional or more stringent requirements. Failure to comply with the relevant laws and regulations in any mine development and coal production projects may adversely affect the Group. Some of the relevant laws and regulations in Mongolia are as follows:

Minerals Law

Under the Minerals Law, mineral exploration licences are granted for an initial period of three years. Holders may apply for an extension of the licences for three successive additional periods of three-year each, making twelve years in total. Renewal of licences must be made timely and subject to payment of annual licence fee. The Minerals Law also states that the licence holders are obligated to meet a minimum exploration expenditure requirement.

Failure to meet these requirements may subject to licence cancellation by the Mongolian authorities. The mining licence for coal is granted for an initial term of thirty years with an option for two further extensions of twenty-year each, making seventy years in total. The Mongolian authorities may also impose moratorium on any licences if the holders are in breach of any relevant laws in Mongolia.

Mining Prohibition Law

On 16 July 2009, the Parliament of Mongolia enacted the MPL which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas and areas adjacent to rivers and lakes. Since its enactment, it has been subject to much controversy and many changes and clarification have brought about on its application and implementation. At present, all our licences in the Khushuut Coal Mine are not the subject under the MPL. However, there is no guarantee that our licences will not be affected in the future when there is a change on the relevant law.

Strategic Deposits

The Minerals Law states that a mineral deposit is of strategic importance if a deposit may have a potential impact on national security, economic, and/or social development of the country at regional and/or national levels, or that is capable of producing greater than 5% of the gross domestic product of any given year.

If a mine is ruled as a Strategic Deposit, the Mongolian government could participate its interest. Under the said Minerals Law, the size of the government participation is determined largely by the level of state funding which had been provided for the exploration and development of any deposit. The government of Mongolia is entitled to participate up to 50% in the event that there has been a state funding of such deposit, and up to 34% if such deposit was discovered with private funds. In the event a Strategic Deposit is ruled, the Mongolian government will negotiate with the entity concerned as to the mode or percentage of the government's participation and it will depend on the results of individual negotiations.

In order to boost the confidence of the investors, amendments have been made to the Minerals Law relating to Strategic Deposit in 2015. The amendments provide an option for the Mongolian government either to take an equity interest in such deposits or to impose a special royalty in lieu of such interest. The exact amount of royalty to be levied will vary depending on the specifics of the deposits, but the maximum is 5% in addition to other royalties payable under the Minerals Law and supplementary legislation. The Khushuut Coal Mine is not within the list of Strategic Deposits. However, there is no assurance that our Mine will not be considered for Strategic Deposit in the future.

Licence risk

The Minerals Law lists the following grounds for an immediate revocation of mineral licences:

(i) the licence holder is no longer in existence;

(ii) failure to timely and fully pay the licence fees;

(iii) the exploration or mining area has been designated as a special needs territory, or an exploration or mining activities have been prohibited in the licensed area by law and the licence holder has been fully compensated;

(iv) exploration expenditures of a given year are lower than the minimum exploration expenditure requirements set by the Minerals Law; or

(v) the state central administrative agency in charge of the environment (currently Ministry of Environment and Tourism of Mongolia) has decided based on a report of the local administrative bodies that the licence holder has failed to fulfill its environmental reclamation obligations.

Further, a licence may be suspended if the licence holder fails to comply with other requirements of the Minerals Law and/or other relevant laws and regulations for up to three months in accordance with the Licensing Act, during which the licence holder is required to remedy such breach. If the licence holder fails to cure such breach, the licence can then be revoked.

Country risk

The business of the Group is currently in Mongolia with the target market in the PRC. There can be a risk relating to the likelihood that changes in the business environment will occur which reduces the profitability of doing business in Mongolia and/or the PRC. Changes of political and economic conditions in either Mongolia or the PRC may adversely affect the Group.

There is no assurance that the Group's assets or business will not be subject to nationalization, requisition or confiscation due to change of laws or political conditions.

Environmental protection policies

Mining and exploration business is subject to the Mongolian environmental protection laws and regulations. Under Article 66 of the Minerals Law, if a licence holder violates environmental protection legislation, the entity holding the licence may be fined or its activities suspended until it has complied with environmental and other regulations.

In the worst case scenario, a licence may be revoked for non-compliance pursuant to Article 56 of the Minerals Law.

If the Group fails to comply with existing or future environmental laws and regulations, the Group may be required to take remedial measures, which could have a materially adverse effect on its business, financial conditions, and results of operations.

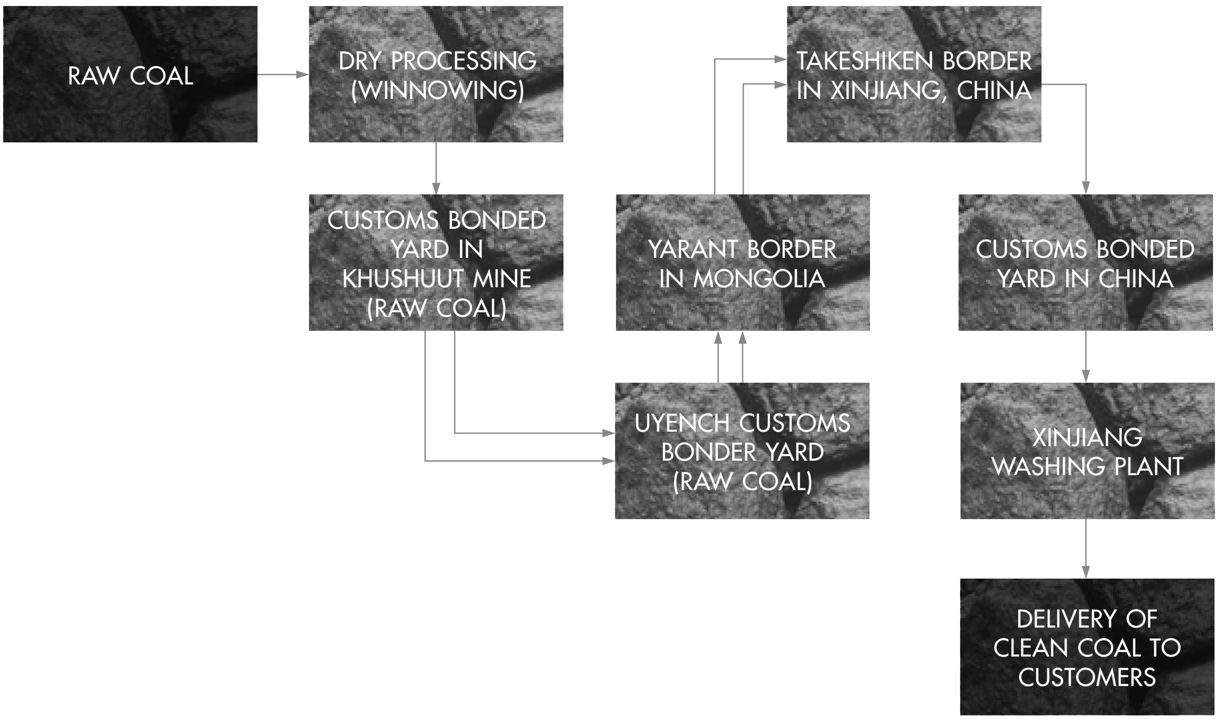
In addition, environmental protection is currently one of the core policies of China which advocates for the use of alternative or renewable energies by burning less fossil fuel. It is the trend that environmental controls will become more stringent in the future. Our business development will be affected and our cost will be increased in compliance with the onerous requirements imposed.

Operational risks

We require various contractors for the mining operations of our Khushuut Coking Coal Project. If there is any unforeseeable event which renders these contractors unable to continue providing their services and no effective solution is implemented, our operation may be seriously impacted. Our operation is also dependent on the fuel supply condition in Mongolia.

We ship our coal out of Mongolia via the Khushuut Road which is approximately 311 kilometres connecting our mine site to the Xinjiang customs border. If any part of the road is damaged and is not properly repaired, our coal transportation may come to a halt. The Yarant Border in Mongolia and the Takeshiken Border in Xinjiang are the only borders for our raw coking coal export. As our coking coal customers are in Xinjiang, China, if there is any export or import restrictions imposed by either border and no alternative customs border is available for our coal export purpose, we are unable to sell coking coal to our customers in Xinjiang. In addition, any adverse change of import policy/practices on coal import into Xingjiang, China will also impact our operations. Our production flow and logistic are illustrated in figure below.

Production flow and logistic



Financial risks

Exploration and mining is an industry which requires a heavy capital layout for its developments and sustainability. Investors invariably require substantial amount for the start up even the projects are proven potential. Our sources of funding are mainly from loans raised through the issue of convertible notes and advances from our Chairman and Director of the Company. The Group currently has liabilities of over HK$4,000 million in which approximately HK$1,760 million is current liability being the advances. Our ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from Mr. Lo, Chairman and Director of the Company. Mr. Lo does not intend to demand repayment until the Company has sufficient cash to make repayment. However, if either Mr. Lo changes his intention by demanding immediate repayment of the advances or we are unable to reach an amicable solution with the convertible note holders when these instruments fall due, the Group would be unable to meets its financial obligations as and when they fall due.

Political stability

The Parliament of Mongolia is the highest governing body of state power and the legislative power is vested solely in the Parliament. As a supreme government organ, the Parliament is empowered to enact and amend laws, ratify international agreements, and declare a state emergency. Specifically, the Parliament may consider on its initiative any issue pertaining to domestic and foreign policies of the State, and retains within its exclusive power, including but not limited to:

(i) enact new laws and make amendments to the laws;

(ii) define the State financial, credit, tax and monetary policies;

(iii) lay down guidelines for the country's economic and social development;

(iv) approve the government's program of action, the state budget and the report on its execution; and

(v) supervise the implementation of laws and other decisions of the Parliament.

The Parliament meets semi-annually. The Parliament members elect a chairman and a vice chairman who each serves a four-year term. The Parliament members are elected by district for a four-year term.

The Mongolian Parliament used to adopt a policy to welcome international investors to invest and develop its mining sector, and have favourable policies on mining developers. However, there is no guarantee that the Parliament will not change its existing policies or adopt a more conservative or restrictive policy on the mining sector in future.

EXPLORATION AND MINING CONCESSIONS OF THE GROUP

The information of the Group's exploration and mining concession areas in Western Mongolia during the Financial Year is as follows:

Licence (licence no.)	Location (resources)	Mine Area (approximate) (hectare)[Δ]	Date of issuance	Licence valid period[#]	Development status/Remarks
	Khushuut coal project				
1414A 1640A 4322A 6525A 11887A 11888A 15289A 20299A	Khovd, Western Mongolia	1,885	30 December 1998 25 May 1999 23 April 2002 7 November 2003 14 August 2006 14 August 2006 23 November 2009 14 August 2006	70 years for Mining Licences (A)[▲▲]	Approximate 141 million tonnes of in-place resources according to JORC standards are reported*
	Exploration Project				
20745X	Gobi Altay, Western Mongolia	10,884	22 February 2017	12 years for Exploration Licence (X)[▲]	
	Others				
2913A	Olon Bulag, Western Mongolia	38	26 January 2001	70 years for Mining Licence (A)[▲▲]	
14349X[☆]	Bayan-Ulgii, Western Mongolia	2,983	24 October 2008	12 years for Exploration Licence (X)[▲]	To seek potential buyer
Total Hectares		15,790			

Δ *1 hectare = 10,000 square metres*

\# *the exploration licences are for three years with three further extensions of three-year each. The mining licences are for thirty years with two further extensions of twenty-year each.*

▲ *(X) stands for exploration licence*

▲▲ *(A) stands for mining licence*

☆ *partial overlapping with the watershed protection area because the licence area is located near forest edge and there is a small river territory running through the area.*

* *The resource estimation of the Khushuut Coal Mine is based on "reasonable prospects for eventual economic extraction" by using the following parameters:*

(a) Open-pit mining method;

(b) Maximum mining depth of 400 meters;

(c) Raw coal density as determined from the analytical data. The average density for the B and C seams is 1.45;

(d) Minimum mineable seam height of 1.5 meters; and

(e) Coal estimates are on raw coal basis, which include all coal and partings less than 0.1 meter, non-coal parting measuring of 0.3 meter or less are mined with coal.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of maintaining a high standard of corporate governance practices to protect and enhance the benefits of the shareholders. The Board and the management of the Company have collective responsibilities to maintain the interest of the shareholders and the sustainable development of the Group. The Board also believes that good corporate governance practices can facilitate growth of a company under a healthy governance structure and strengthen the confidence of the shareholders and investors.

During the Financial Year, the Company had applied the principles of and complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"), save for the following deviations:

i. Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term and subject to re-election.

   None of the existing non-executive Directors is appointed for a specific term which constitutes a deviation from the code provision A.4.1 of the CG Code. However, they are subject to retirement by rotation in accordance with the Bye-laws of the Company. Therefore, the Company considers that sufficient measures have been taken to ensure the Company's corporate governance practices are no less exacting than those set out in the CG Code.

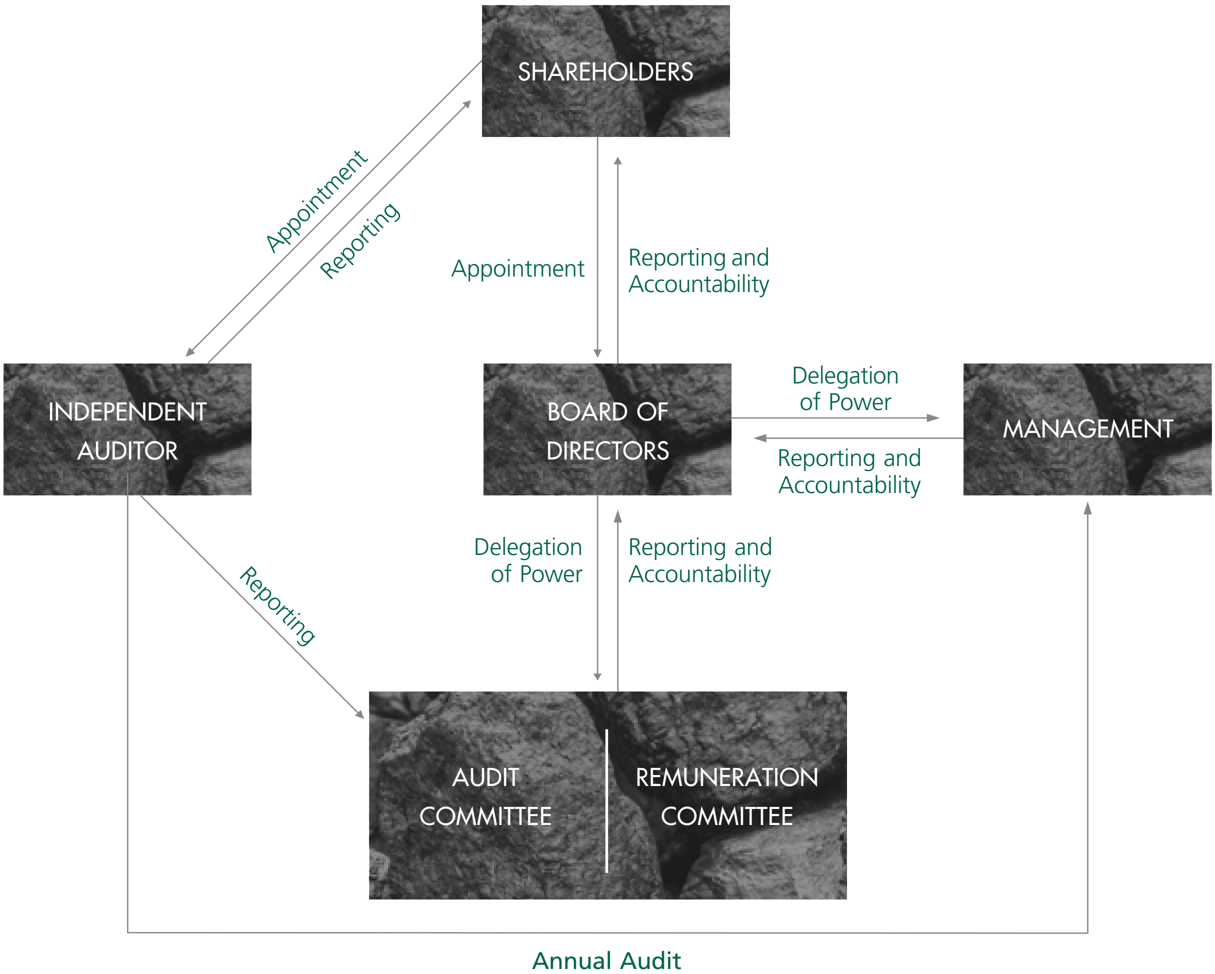
ii. Code provisions A.5.1 to A.5.4 of the CG Code require a nomination committee to be set up, chaired by the chairman of the board or an independent non-executive director to review the structure, size and composition of the board at least annually to complement the issuer's corporate strategy.

   The Company has not set up a nomination committee as required. The Board considers that it should be the responsibility of the full Board to collectively review, deliberate on and approve the structure, size and composition of the Board and appointment of the Directors. The Board has already set out the criteria for selection of a Director under its internal policy. According to the Bye-laws of the Company, any newly appointed Directors are required to offer themselves for re-election at the next general meeting. In addition, the shareholders' right to nominate a director candidate and participation in the re-election of Director by way of poll voting at the annual general meeting ("**AGM**") can further ensure a right candidate to be selected to serve the Board.

iii. Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the AGM.

   The Chairman was unable to attend the 2017 AGM due to other business engagement. The Managing Director of the Company took the chair of the 2017 AGM and answered questions raised by the shareholders. The AGM provides a channel for communication between the Board and the shareholders. Chairman of the Audit and Remuneration Committees of the Company was also present to answer shareholders' questions at the 2017 AGM. Other than the AGM, the shareholders may communicate with the Company through the contact methods listed on the Company's website.

CORPORATE GOVERNANCE STRUCTURE



COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own Code for Securities Transactions by Directors (the "**Code**"), which are on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "**Model Code**"). The Code is sent to each Director on his/her initial appointment and from time to time when the same is amended or restated.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "**Employees' Guidelines**") for securities transactions by relevant employees of the Group who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance with the Employees' Guidelines by the Directors and the relevant employees was noted by the Company during the reporting period.

To enhance corporate governance transparency, the Code and the Employees' Guidelines have been published on the Company's website at www.mongolia-energy.com.

During the period of sixty days immediately preceding and including the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to and including the publication date of the annual results, all the Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published.

During the period of thirty days immediately preceding and including the publication date of the half year results or, if shorter, the period from the end of the relevant half year period up to and including the publication date of the half year results, all the Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published.

The Company Secretary and the Legal and Compliance Department will send reminders prior to the commencement of such period to all the Directors and relevant employees respectively.

It is stipulated under the Code and/or the Employees' Guidelines that all dealings of the Company's securities must be conducted in accordance with the provisions stated therein. Under the Code, the Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company, and in the case of the Chairman himself, he must notify the designated Director and receive a dated written acknowledgement before any dealings.

All the Directors have confirmed in writing that they had complied with the required standards set out in the Model Code and the Code throughout the Financial Year.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Good corporate governance and enterprise-wide risk management are essential for every business. The Company is convinced that corporate governance and Directors and Officers Liability Insurance (the "**D&O Insurance**") complement each other. The Company has arranged appropriate D&O Insurance for the Directors and officers of the Group for indemnifying their liabilities arising from corporate activities. The D&O Insurance coverage is reviewed on an annual basis.

BOARD OF DIRECTORS

Board Composition

The Board currently comprises seven members, including three executive Directors, one non-executive Director and three independent non-executive Directors, overseeing the overall business operation of the Company. Biographical details of the Directors are set out on pages 38 to 39.

Our Board possesses a balance of skills and experience appropriate for the running of the Company's business. They come from different streams of professions with diversified expertise including management, finance, legal and accounting.

The Board members during the Financial Year and up to the date of this Report are as follows:

Executive Directors
Mr. Lo Lin Shing, Simon *(Chairman)*
Ms. Yvette Ong *(Managing Director)*
Mr. Lo, Rex Cze Kei (re-designated on 1 February 2018)

Non-executive Director
Mr. To Hin Tsun, Gerald

Independent Non-executive Directors
Mr. Tsui Hing Chuen, William *JP*
Mr. Lau Wai Piu
Mr. Lee Kee Wai, Frank

The Board will consider the following attributes or qualifications in evaluating membership in the Board:

– management and leadership experience;

– skills and diverse background;

– integrity and professionalism; and

– independency.

The Company has adopted an internal policy (the "**Policy**") setting out an approach to achieve diversity on the Board. The Policy provides that the Company should ensure its Board members possess a balance of skills, experience and diversity of perspectives that are appropriate for the running of the Company's business.

The Board will review its composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the business and development of the Company. The shareholders may propose a candidate for election as a director and the procedures have been published on the website of the Company.

During the Financial Year, the Board at all times met the requirements under Rule 3.10 of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

All the independent non-executive Directors are financially independent from the Company and any of its subsidiaries. The Company has received written annual confirmation of independence from each independent non-executive Director pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

Appointment and Re-election of Directors

Potential new Directors are identified and considered for appointment by the Board. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his or her appointment, and all executive and non-executive Directors are subject to re-election by shareholders every three years.

Potential new Board members are identified on the basis of skills and experience which, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board.

Full details of changes in the Board during the Financial Year and up to the date of this Report are provided in the section of this annual report headed Directors' Report.

Responsibilities and Functions of the Board

The Board is responsible for formulating strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving the financial statements. The Board is also responsible for developing and reviewing the Company's policies on corporate governance and making recommendations. The Board as a whole and the management of the Company shall ensure good corporate governance practices and procedures are followed.

The Directors, collectively and individually, are aware of their responsibilities to the shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances as and when necessary, the Directors can seek independent professional advice at the Company's expense for ensuring that the Board procedures and all applicable rules and regulations are followed.

The Board may delegate the management powers to the management of the Company. However, the delegation of power does not absolve the Directors from their responsibilities of exercising requisite skill, care and diligence in overseeing the performance of the Company. The Board can meet the management of the Company from time to time to discuss the operating issues of the Group. The Company has also issued formal appointment letters to all the Directors setting out the key terms and conditions of their respective appointments.

In order to enable the Directors to discharge their duties effectively, each Director has separate and independent access to members of the management to make enquiries or obtain necessary information. They may also seek advices and services from external experts and consultants at the Company's expense for the purpose of facilitating them to make an informed decision.

All the non-executive Directors, including the independent non-executive Directors, are not involved in daily management. The non-executive Directors assist the Board in determining overall policies of the Company and contributing to the decision making of the Board. The independent non-executive Directors also give independent views on the deliberations of the Board and ensure high standards of corporate governance and financial probity.

The Board is responsible for performing the following corporate governance duties:

i. to develop and review the Company's policies on corporate governance and make recommendations;

ii. to review and monitor the training and continuous professional development of the Directors and senior management;

iii. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

iv. to develop, review and monitor the code of conduct of employees and the Directors; and

v. to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the Financial Year, the Board:

i. reviewed the performance of the Group and formulated business strategies of the Group;

ii. reviewed and approved the annual and interim results of the Group;

iii. reviewed the internal controls of the Group;

iv. reviewed the corporate governance procedures;

v. reviewed and approved the general mandates to issue shares of the Company;

vi. reviewed and approved the connected transactions of the Company;

vii. reviewed and approved the Environmental, Social and Governance Report 2017;

viii. reviewed and approved the refreshment of share option scheme limit;

ix. reviewed and approved inside information announcements; and

x. reviewed and approved the auditor's remuneration and recommended the re-appointment of Messrs. Deloitte Touche Tohmatsu as the independent auditor of the Group respectively.

To the best knowledge of the Company, apart from the father and son relationship between Mr. Lo Lin Shing, Simon ("**Mr. Lo**") and Mr. Lo, Rex Cze Kei, there is no financial, business and family relationship among our Directors. All of them are free to exercise their independent judgments.

The Directors are aware of their commitments to the Company for contributing sufficient time and attentions to the management of the Company.

CHAIRMAN AND MANAGING DIRECTOR

During the Financial Year, the Chairman of the Board and the Managing Director were Mr. Lo and Ms. Yvette Ong respectively.

The Chairman's responsibilities are to provide leadership to the Board and formulate the Group's business strategies. The Chairman is also responsible for ensuring that the Board works effectively, in particular, all the Directors receive reliable, adequate and complete information in a timely manner. The Chairman may communicate with the Directors directly or through the assistance of the Company Secretary to discuss or clarify any issues concerning the Group from time to time, and to provide any supporting information and documents to them.

The Chairman assumes the primary responsibility for ensuring that good corporate governance practices and procedures are established.

The Managing Director is responsible for the conduct of day-to-day operation of the Company and accountable to the Board for all aspects of the corporate performance. She recommends policies to the Board for consideration and approval, and keeps the Board informed of any material developments of the Company's business. The Managing Director may delegate her duties to any other management members or responsible officers of the Company but she assumes the principal responsibility.

NON-EXECUTIVE DIRECTORS

None of the existing non-executive Directors, including the independent non-executive Directors, is appointed for a specific term.

COMPANY SECRETARY

The Company Secretary is an employee of the Company and has served the Company as the Company Secretary since July 2004. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Under the Company's Bye-laws, the appointment of the Company Secretary shall be determined by the Board. The Company Secretary shall attend all meetings of the shareholders and the Directors and shall keep correct minutes of such meetings and enter the same in the proper books provided for the purpose. During the Financial Year, the Company Secretary had taken no less than fifteen hours of relevant professional trainings under Rule 3.29 of the Listing Rules.

BOARD COMMITTEES

The Board has established the Remuneration Committee and the Audit Committee, with specific terms of reference relating to their authorities and duties, which strengthen the Board's functions and enhance its expertise.

Each Committee makes decisions on matters within its terms of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each Committee will be reviewed from time to time.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three independent non-executive Directors, namely Mr. Lau Wai Piu, Mr. Tsui Hing Chuen, William *JP* and Mr. Lee Kee Wai, Frank, of whom Mr. Lau Wai Piu is the chairman. The Company has also appointed an external consultant to review and compare the level of compensation paid to the Directors with the prevailing market rates and give recommendation, and to review and study the remuneration level of the senior management of the Company and give recommendation.

The main responsibilities of the Remuneration Committee include, but are not limited to, making recommendations to the Board on the Company's policy and structure for remuneration of all the Directors and senior management, and to make recommendations on the remuneration packages of the individual executive Directors and senior management.

The terms of reference of the Remuneration Committee which was revised and adopted in March 2012 are in line with the requirements of the Listing Rules. Details of the terms of reference of the Remuneration Committee can be viewed on both the websites of the Company and The Stock Exchange of Hong Kong Limited ("**Stock Exchange**").

During the Financial year, the Remuneration Committee:

(i) reviewed and made recommendations on the remuneration policies; and

(ii) reviewed the remuneration packages of the Directors and the senior management.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely Mr. Lau Wai Piu, Mr. Tsui Hing Chuen, William *JP* and Mr. Lee Kee Wai, Frank. Mr. Lau Wai Piu is appointed as the chairman and has appropriate professional qualifications, accounting and related financial management experience.

The main responsibilities of the Audit Committee include, but are not limited to, reviewing the Company's current financial standing, considering the nature and scope of audit reports, and ensuring internal control and risk management systems operate in accordance with applicable standards and conventions.

The terms of reference of the Audit Committee which was revised and adopted in March 2012 are in line with the requirements of the Listing Rules. Details of the terms of reference of the Audit Committee can be viewed on both the websites of the Company and the Stock Exchange.

During the Financial Year, the Audit Committee:

(i) reviewed the financial statements for the year ended 31 March 2017 and for the six months ended 30 September 2017;

(ii) reviewed the effectiveness of the internal control and risk management systems;

(iii) reviewed the independent auditor's report; and

(iv) reviewed the Company's continuing connected transactions for the year ended 31 March 2017 pursuant to the Listing Rules.

During the Financial Year, the Chief Financial Officer attended both of the Audit Committee meetings to present the financial results of the Group to the Committee members. He also oversaw the financial reporting procedures and ensured the financial reporting and other accounting-related issues were complied with the statutory requirements and applicable accounting standards.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the Financial Year is set out below:

	Number of Meetings Attended/Held				Continuous Professional Development
Directors	**Board**	**Remuneration Committee**	**Audit Committee**	**Annual General Meeting**	**Type of Training** (Notes)
Mr. Lo	4/4	N/A	N/A	0/1	B
Ms. Yvette Ong	4/4	N/A	N/A	1/1	B
Mr. Lo, Rex Cze Kei	4/4	N/A	N/A	0/1	B
Mr. To Hin Tsun, Gerald	4/4	N/A	N/A	0/1	A, B
Mr. Tsui Hing Chuen, William JP	4/4	1/1	2/2	0/1	A, B
Mr. Lau Wai Piu	4/4	1/1	2/2	1/1	A, B
Mr. Lee Kee Wai, Frank	4/4	1/1	2/2	0/1	A, B

Notes:

A: attending seminars and/or conference and/or forums or giving talks at seminars

B: reading materials relating to the Group, general business or director's duties and responsibilities, etc.

For every Board and Board Committee meeting, each Director is required to declare whether he/she has any conflict of interests in the matters to be considered. If a substantial shareholder or a Director has a conflict of interest which is considered by the Board as material, the matters should be dealt with by a physical Board meeting rather than a written resolution.

Apart from the regular Board meetings, the Chairman had held meetings with the non-executive Directors, including the independent non-executive Directors without the presence of the executive Directors.

Directors' Training and Continuous Professional Development

All the Directors should participate in continuous professional development to develop and refresh their knowledge and skills in their roles as directors pursuant to Code Provision A.6.5 of the CG Code. Attendance to any professional courses recognised by registered professional bodies such as The Law Society of Hong Kong, The Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries etc., are recognised by the Company for this purpose. The Directors will also be provided with written materials from time to time to keep abreast of the latest legal and regulatory changes to enable them to effectively discharge their duties.

During the Financial Year, all the Directors had participated in appropriate continuous professional development activities by ways of attending training and/or reading material relevant to the Company's businesses or to the Directors' duties and responsibilities.

INDEPENDENT AUDITOR

Messrs. Deloitte Touche Tohmatsu ("**Deloitte**") was re-appointed as independent auditor of the Group (the "**Independent Auditor**") at the 2017 AGM. It is the Independent Auditor's responsibilities to form an independent opinion, based on its audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purposes. Deloitte does not assume responsibility towards or accept liability to any other person for the contents of the Independent Auditor's Report.

The statement of the Independent Auditor about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 53 to 57.

During the year under review, the professional fee paid/payable to the Independent Auditor is set out as follows:

Services	HK$'000
Audit services	3,600
Non-audit services	1,048
	4,648

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards.

The statement of the Independent Auditor of the Company regarding responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 53 to 57.

ACCOUNTABILITY AND AUDIT

The Group has provided its major operations and updates and financial information on a monthly basis to enable the Directors to assess its performance at regular intervals.

The Board understands its responsibility under the Listing Rules and other applicable regulations to make a prompt assessment and disclose updated developments and inside information regarding the Group to the shareholders and investing public in a timely manner.

Apart from these, the Company's website (www.mongolia-energy.com) also provides comprehensive and accessible news and information of the Group. Contact details of the Company are posted on the website in order to enable the shareholders and other stakeholders to make enquiries in respect of the Group.

The latest and previous annual reports, interim reports, announcements, business operations, corporate governance practices and other information of the Company are available on the Company's website. To ensure effective and timely dissemination of information at all times, the Company updates the website contents on a regular basis to keep the shareholders and public informed of the business developments of the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Group's system of internal control so as to maintain sound and effective risk management and internal control to safeguard the shareholders' investment and the assets of the Group.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. This process includes continuous updating of the risk management and internal control systems of the Group in response to the changing business environment and regulatory requirements.

The Board also conducts reviews of the risk management and internal control of the Group to ensure that the policies and procedures in place are adequate. The Board assesses the effectiveness of the Group's risk management and internal control systems which covers all material controls, including financial, operational and compliance controls and risk management functions.

During the Financial Year, the Group engaged a professional accounting firm to be its internal auditor (the "**Internal Auditor**") and to report directly to the Audit Committee. The Internal Auditor adopts a risk-based approach and independently review and test the controls over various selected operations and activities and evaluates their adequacy, effectiveness and compliance on an annual or ad hoc basis. Review findings and recommendations are reported to the Audit Committee. In addition, progress on audit recommendations implementation will be followed up on a regular basis and discussed with the Audit Committee.

During annual review, the Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group, accounting and financial reporting function and their training programs and budgets. Based on the results of evaluations and representations made by the Internal Auditor and the Independent Auditor for the Financial Year, the Audit Committee was satisfied that there was an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that would threaten the achievement of its business objectives; and an appropriate, effective and adequate system of internal control and enterprise risk management had been in place in during the Financial Year.

To enhance the effectiveness of the risk management and internal control, the Director of Legal and Compliance will assist in risk management and internal control review process to ensure the compliance aspects of the Group are met. The Company Secretary will ensure the Board and the Board Committees are provided with timely information and sufficient resources to enable them to efficaciously discharge their duties.

COMMUNICATION WITH SHAREHOLDERS

The Group is committed to enhancing the communication with the shareholders and investors. Updated information about the announcements of the Group and the Company is posted on our website (www.mongolia-energy.com) in a timely manner. The shareholders can communicate with the Company or the Board through the contact information provided on the website and in the general meetings of the Company.

The Company has complied with the Listing Rules regarding the requirements about voting by poll and keeping the shareholders informed of the procedures for voting by poll through notices of general meetings in circulars of the Company.

During the Financial Year, the Company held one general meeting which was the AGM. The Directors and the Independent Auditor of the Company had attended the 2017 AGM to answer the shareholders' enquiries. In addition, separate resolutions for each issue had been proposed at the general meeting for voting by the shareholders.

The notice of the AGM is distributed to all shareholders at least twenty clear business days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company has only one class of shares. All shares have the same voting rights and entitlement to any dividend declared. The rights of our shareholders are set out in, among others, the Bye-laws of the Company and the Bermuda Companies Act.

Convening a General Meeting

The shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to request a general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months from the date of the deposit of such requisition.

If the Board does not within twenty-one days from the date of deposit of the requisition proceed duly to convene a general meeting, the shareholders concerned may convene the general meeting in the same manner in accordance with the provisions of Section 74 of the Bermuda Companies Act.

The written requisition must state the objects of the meeting, and must be signed by the shareholders concerned. The requisition will be verified with the Company's share registrars and upon their confirmation that the requisition is proper and in order, the Company Secretary will ask the Board to (i) include the resolution in the agenda for the AGM; or (ii) convene a special general meeting by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders.

On the contrary, if the requisition has been verified as not being in order, the shareholders concerned will be advised of this outcome and accordingly, (i) the proposed resolution will not be included in the agenda for the AGM; or (ii) the general meeting will not be convened as requested.

The notice period to be given to the registered shareholders for consideration of the proposal raised by the shareholders concerned at a general meeting varies according to the nature of the proposal. Pursuant to Bye-law 59 (1) of the Company's Bye-laws, an AGM shall be called by a notice of not less than twenty clear business days and all other general meeting at which the passing of a special resolution is to be considered shall be called by not less than ten clear business days.

Putting Forward Proposals at General Meetings

The shareholders representing not less than one-twentieth of the total voting rights of the Company at the date of the deposit of the requisition or not less than one hundred shareholders are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company.

The requisition must state the proposal together with a statement with respect to the matter referred to in the proposal and duly signed by the shareholders concerned. The written requisition must be deposited at the registered office of the Company for the attention of the Company Secretary, (i) in the case of a requisition requiring notice of a resolution not less than six weeks before the meeting, and (ii) in the case of any other requisition, not less than one week before the meeting.

The requisition will be verified with the Company's share registrars and upon their confirmation that the requisition is proper and in order, the Company Secretary will ask the Board to (i) include the resolution in the agenda for the AGM; or (ii) convene a special general meeting by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders.

On the contrary, if the requisition has been verified as not being in order, the Shareholders concerned will be advised of this outcome and accordingly, (i) the proposed resolution will not be included in the agenda for the AGM; or (ii) the general meeting will not be convened as requested.

Proposing for Election as a Director

If a shareholder wishes to propose a person other than a Director of the Company for election as a Director at any general meeting, he/she can deposit a written notice to that effect at the principal place of business of the Company for the attention of the Company Secretary.

In order for the Company to inform its shareholders of that proposal, the written notice must state the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and that person indicating his/her willingness to be elected. The period for lodgment of such a written notice will commence no earlier than the day after the despatch of the notice and end no later than seven days prior to the date of any general meeting.

Putting Forward Enquiries to the Board

Shareholders may send written enquiries, either by post or by email, together with his/her contact details, such as postal address or email, addressed to the principal place of business of the Company in Hong Kong as set out in the section headed "Corporate Information" for the attention of the Company Secretary or by email to us at enquiry-hk@mongolia-energy.com.

CONSTITUTIONAL DOCUMENTS

During the Financial Year, the Company has not made any changes to its Bye-laws. An up to date version of the Company's Bye-laws is available on the Company's website as well as the Stock Exchange's website.

MR. LO LIN SHING, SIMON

Chairman and Executive Director

Mr. Lo, aged 62, an entrepreneur, is the Chairman of the Company. He has been an executive Director since August 1999. Mr. Lo identifies business opportunities for MEC, including the acquisition of the coal mine in Western Mongolia, and provides business and strategic directions. He possesses over 30 years of experience in the financial, securities and futures industries, including many trans-border transactions. Mr. Lo has been a member of Chicago Mercantile Exchange and International Monetary Market (Division of Chicago Mercantile) since 1986. He is the father of Mr. Lo, Rex Cze Kei, an executive Director of the Company. Mr. Lo is also the chairman and executive director of Vision Values Holdings Limited which is listed on the Stock Exchange. He formerly served as the deputy chairman and executive director of International Entertainment Corporation which is listed on the Stock Exchange until his resignation in June 2017.

MS. YVETTE ONG

Managing Director and Executive Director

Ms. Ong, aged 53, has been an executive Director since September 1999 and was appointed as the Managing Director on 1 June 2012. She has over 27 years of managerial experience in the Asia-Pacific region. Prior to joining the Company, Ms. Ong was a managing director of AT&T EasyLink Services Asia Pacific Ltd. She holds an MBA degree in Management Information Systems and Marketing and a Bachelor degree in Finance and Management from the University of San Francisco. Ms. Ong is also an executive director of Vision Values Holdings Limited which is listed on the Stock Exchange.

MR. LO, REX CZE KEI

Executive Director

Mr. Rex Lo, aged 37, was appointed as a Non-executive Director in October 2016 and re-designated as an Executive Director in February 2018. He has over 9 years of experience in property business and general management. Mr. Rex Lo holds a Master of Science in Electronic Commerce and Internet Computing and a Bachelor of Science in Business Administration. He is the son of Mr. Lo, the Chairman of the Company. Mr. Rex Lo is also an executive director of Vision Values Holdings Limited which is listed on the Stock Exchange.

MR. TO HIN TSUN, GERALD

Non-executive Director

Mr. To, aged 69, was appointed as an independent non-executive Director in August 1999 and re-designated as a non-executive Director in October 2000. Mr. To has been a practising solicitor in Hong Kong since 1975. He is also qualified as a solicitor in the United Kingdom, as well as an advocate and solicitor in Singapore. Mr. To is a non-executive director of NWS Holdings Limited which is listed on the Stock Exchange. He formerly served as an executive director of International Entertainment Corporation which is listed on the Stock Exchange until his resignation in June 2017.

MR. TSUI HING CHUEN, WILLIAM *JP*

Independent Non-executive Director

Mr. Tsui, aged 67, was appointed as an independent non-executive Director in September 2006. Mr. Tsui is the founding partner of Messrs. Lo, Wong & Tsui, Solicitors & Notaries, which was established in 1980. He has been a solicitor of the High Court of Hong Kong since 1977, a solicitor of the Supreme Court of England & Wales since 1981, and a barrister and solicitor of the Supreme Court of Victoria, Australia since 1983. He has also been an advocate and solicitor in Singapore since 1985 and a notary public appointed by the Archbishop of Canterbury, England since 1988. Mr. Tsui was appointed as a Justice of the Peace by the Government of Hong Kong in 1997. He was admitted to the Roll of Honour of The Law Society of Hong Kong in 2013. Mr. Tsui is also an independent non-executive director of Haitong International Securities Group Limited and Vision Values Holdings Limited, both of which are listed on the Stock Exchange. He formerly served as an independent non-executive director of International Entertainment Corporation which is listed on the Stock Exchange until his resignation in June 2017.

MR. LAU WAI PIU

Independent Non-executive Director

Mr. Lau, aged 54, joined the Company as an independent non-executive Director since September 2004. He has over 20 years of extensive experience in accounting and financial management. Mr. Lau is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He is also an independent non-executive director of Haitong International Securities Group Limited and Vision Values Holdings Limited, both of which are listed on the Stock Exchange. Mr. Lau formerly served as an independent non-executive director of International Entertainment Corporation which is listed on the Stock Exchange until his resignation in June 2017.

MR. LEE KEE WAI, FRANK

Independent Non-executive Director

Mr. Lee, aged 59, was appointed as an Independent Non-executive Director in October 2016. He is the Senior Partner of Messrs. Vincent T.K. Cheung, Yap & Co., Solicitors and Notaries. Mr. Lee holds a Master of Law from University of Cambridge and a Bachelor of Laws from the London School of Economics & Political Science. He is a qualified solicitor in the respective jurisdictions of Hong Kong, England and Wales, Singapore and the Australian Capital Territory (Australia). Mr. Lee is also a China-Appointed Attesting Officer and a member of the Chartered Institute of Arbitrators. He is also an independent non-executive director of Pico Far East Holdings Limited and Vision Values Holdings Limited, both of which are listed on the Stock Exchange.

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements of the Company and its subsidiaries (together the "**Group**") for the Financial Year.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding and the activities of its principal subsidiaries are energy and metal resources exploration, coal mining and other related operations. The activities of the principal subsidiaries are set out in Note 41 to the consolidated financial statements.

Analyses of the principal activities and geographical locations of the operations of the Group for the year ended 31 March 2018 are set out in Note 6 to the consolidated financial statements.

BUSINESS REVIEW

Reviews of the business of the Group during the Financial Year are set out in the Management Discussion and Analysis on pages 11 to 15.

POSSIBLE RISKS AND UNCERTAINTIES

Descriptions of the possible risks and uncertainties that the Group is facing are provided in the Management Discussion and Analysis on pages 17 to 22 and in Note 5 to the consolidated financial statements. The financial risk management objectives and policies of the Group can be found in Note 37 to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Discussions of the environmental policies and performance during the Financial Year are provided in the Management Discussion and Analysis on pages 14 to 15.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

Discussions of the compliance with relevant laws and regulations which have a significant impact on the Group are set out in the Management Discussion and Analysis on page 15.

KEY RELATIONSHIPS WITH STAKEHOLDERS

In relation to the Company's key relationships with its stakeholders, discussions of the Company's policies on human resources management, community involvement and contribution in relation to environmental concerns and social responsibilities are provided in the Management Discussion and Analysis on page 15.

RESULTS

The results of the Group for the year ended 31 March 2018 are set out in the Consolidated Statement of Profit or Loss on page 58.

No interim dividend was declared (2017: Nil) and the Directors do not recommend the payment of a final dividend for the year ended 31 March 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 21 August 2018 to Friday, 24 August 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 20 August 2018.

SHARE CAPITAL

Details of the movements in the share capital and the share options of the Company during the Financial Year are set out in Notes 31 and 32 to the consolidated financial statements.

During the Financial Year, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered into during the Financial Year or subsisting at the end of the Financial Year are set out below:

Convertible notes

On 21 November 2014, the Company issued convertible notes with principal amounts of HK$3,467,015,000. As at 31 March 2018, they can be converted into 4,386,966,982 conversion shares at a par value of HK$0.02. The maturity date of the convertible notes is 21 November 2019. The notes bear interest at 3% per annum and are unsecured. The Group will not receive further consideration when the holders determine to convert the notes into ordinary shares of the Company prior to the maturity date. The reason for issuance of the convertible notes was to raise additional capital for strengthening the capital base and financial position of the Group and to enhance the liquidity position for the development of the Group's Khushuut Coking Coal Project.

Share Option Scheme

Details of the share options granted in prior years and the Financial Year are set out in Note 32 to the consolidated financial statements and "Share Option Scheme" section contained in this Directors' Report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results for the Financial Year and of the assets and liabilities of the Group as at 31 March 2018 and for the last four financial years are set out on page 123.

RESERVES

Details of the movements in reserves of the Group and the Company during the Financial Year are set out on page 61 and in Note 40 to the consolidated financial statements respectively.

CHARITABLE DONATIONS

For the year ended 31 March 2018, the Group made charitable and other donations in a total amount of HK$5,664,000 (2017: HK$815,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Financial Year are set out in Note 15 to the consolidated financial statements.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the principal subsidiaries and associated companies of the Group as at 31 March 2018 are set out in Notes 41 and 19 to the consolidated financial statements respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the Financial Year attributable to the Group's major customers and suppliers are as follows:

Sales	
The largest customer	44%
Five largest customers in aggregate	99%
Purchases	
The largest purchaser	22%
Five largest purchasers in aggregate	54%

None of the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers.

DIRECTORS

During the Financial Year and up to the date of this Directors' Report, the board composition and biographical details of the Directors of the Group are set out on pages 27 to 28, and pages 38 to 39 respectively.

In accordance with Bye-law 87 of the Bye-laws of the Company, Mr. Lo, Mr. To Hin Tsun, Gerald and Mr. Lau Wai Piu will retire. All the retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM.

The Directors, including the independent non-executive Directors, are subject to retirement by rotation and re-election at the AGM of the Company in accordance with the provisions of the Bye-laws of the Company.

DIRECTORS' SERVICE CONTRACTS

Mr. Lo entered into a service contract with the Company on 31 March 2016 for a fixed term of three years with effect from 1 April 2016.

Saved as disclosed above, none of the Directors during the Financial Year be proposed for re-election at the forthcoming AGM has entered into any service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the Financial Year.

CHANGES IN DIRECTORS' INFORMATION

In pursuant to Rule 13.51B(1) of the Listing Rules, the changes in directors' information are set out below:

1. Ms. Yvette Ong was appointed as an executive director in February 2018 of Vision Values Holdings Limited which is listed on the Stock Exchange.

2. Mr. Lo, Rex Cze Kei was re-designated as an executive director in February 2018 of Vision Values Holdings Limited which is listed on the Stock Exchange.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 24 to 37.

DIRECTORS' INTERESTS

As at 31 March 2018, the interests or short positions of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in the shares and underlying shares of the Company

	Number of shares			Number of underlying shares			
Name of Directors	Personal interests	Spouse interests	Corporate interests	Personal Interests pursuant to share options	Corporate interests	Total interests	Percentage of shareholding
Mr. Lo	1,240,000	437,500	301,519,575 (Note)	38,750,000	716,853,496 (Note)	1,058,800,571	56.28%
Ms. Yvette Ong	272,500	–	–	16,250,000	–	16,522,500	0.88%
Mr. Lo, Rex Cze Kei	–	–	–	15,000,000	–	15,000,000	0.80%
Mr. To Hin Tsun, Gerald	1,350,000	–	–	8,125,000	–	9,475,000	0.50%
Mr. Tsui Hing Chuen, William JP	125,000	–	–	8,125,000	–	8,250,000	0.44%
Mr. Lau Wai Piu	50,300	–	–	8,125,000	–	8,175,300	0.43%
Mr. Lee Kee Wai, Frank	–	–	–	5,000,000	–	5,000,000	0.27%

*Note: Golden Infinity Co., Ltd. ("**Golden Infinity**"), a company wholly-owned by Mr. Lo.*

Save as disclosed above and the section headed "SHARE OPTION SCHEME", as at 31 March 2018, none of the Directors, chief executives and their respective associates had any interests 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 were required to be recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS UNDER THE SFO

The register of interests in shares and short positions maintained under Section 336 of the SFO showed that as at 31 March 2018, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

Long position of substantial Shareholders/other persons in the shares and/or underlying shares

Name of Shareholders	Number of shares and/or underlying shares					
	Beneficial/ Personal interests	Spouse interests	Corporate interests	Total interests		Percentage of nominal value of issued share
Cheng Yu Tung Family (Holdings) Limited	–	–	3,260,224,374	3,260,224,374	(Note 1)	173.30%
Cheng Yu Tung Family (Holdings II) Limited	–	–	3,260,224,374	3,260,224,374	(Note 1)	173.30%
Chow Tai Fook (Holding) Limited	–	–	3,260,224,374	3,260,224,374	(Note 1)	173.30%
Chow Tai Fook Capital Limited	–	–	3,260,224,374	3,260,224,374	(Note 1)	173.30%
Chow Tai Fook Nominee Limited	3,260,224,374	–	–	3,260,224,374	(Notes 1 & 2)	173.30%
Ms. Ku Ming Mei, Rouisa	437,500	1,058,363,071	–	1,058,800,571	(Note 3)	56.28%
Golden Infinity	1,018,373,071	–	–	1,018,373,071		54.13%
Mr. Och Daniel Saul	–	–	620,853,039	620,853,039	(Note 4)	33.00%
Och-Ziff Capital Management Group LLC	–	–	620,853,039	620,853,039	(Note 4)	33.00%
OZ Management LP	–	–	620,853,039	620,853,039	(Note 4)	33.00%
OZMD IR, LLC	–	–	413,898,046	413,898,046	(Note 4)	22.00%
Sculptor Finance (MD) Ireland Designated Activity Company (formerly known as Sculptor Finance (MD) Ireland Limited)	413,898,046	–	–	413,898,046	(Note 4)	22.00%
OZAS IR, LLC	–	–	188,138,092	188,138,092	(Note 4)	10.00%
Sculptor Finance (AS) Ireland Designated Activity Company (formerly known as Sculptor Finance (AS) Ireland Limited)	188,138,092	–	–	188,138,092	(Note 4)	10.00%
Dr. Cheng Kar Shun	–	19,775,000	78,892,500	98,667,500	(Note 5)	5.24%
Ms. Ip Mei Hing	–	78,892,500	19,775,000	98,667,500	(Note 5)	5.24%

Notes:

1. *Chow Tai Fook (Holding) Limited held 99.7% interest in Chow Tai Fook Nominee Limited. 81.03% interest of Chow Tai Fook (Holding) Limited was held by Chow Tai Fook Capital Limited in which it was held as to 48.98% by Cheng Yu Tung Family (Holdings) Limited and as to 46.65% by Cheng Yu Tung Family (Holdings II) Limited. By virtue of the SFO, each of Cheng Yu Tung Family (Holdings II) Limited, Cheng Yu Tung Family (Holdings) Limited, Chow Tai Fook Capital Limited, Chow Tai Fook (Holding) Limited, and Chow Tai Fook Nominee Limited was deemed to be interested in 3,260,224,374 shares.*
2. *Among 3,260,224,374 shares held by Chow Tai Fook Nominee Limited, 3,205,224,374 shares were underlying shares.*
3. *Ms. Ku Ming Mei, Rouisa, the spouse of Mr. Lo, was deemed to be interested in 1,058,363,071 shares owned by Mr. Lo beneficially, under the SFO.*
4. *OZAS IR, LLC ("**OZAS**") held 100% interest in Sculptor Finance (AS) Ireland Designated Activity Company and OZMD IR, LLC ("**OZMD**") held 100% interest in Sculptor Finance (MD) Ireland Designated Activity Company. OZAS and OZMD were 100% held by OZ Management LP. The entire interest of OZ Management LP was ultimately held by Och-Ziff Capital Management Group LLC, in which Mr. Daniel Saul Och was interested in 65.1% of its interest. By virtue of the SFO, each of Mr. Daniel Saul Och, Och-Ziff Capital Management Group LLC, and OZ Management LP was deemed to be interested in 620,853,039 shares.*
5. *Dr. Cheng Kar Shun was interested in the entire issued share capital of Dragon Noble Group Limited ("**Dragon**"). By virtue of the SFO, he was deemed to be interested in 78,892,500 shares held by Dragon and 19,775,000 shares were owned by Ms. Ip Mei Hing (the spouse of Dr. Cheng Kar Shun) through her controlled corporation Brighton Management Limited.*

Save as disclosed above and those disclosed under "DIRECTORS' INTERESTS", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 31 March 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Financial Year and up to the date of this Report, to the best knowledge of the Directors, none of the Directors and their respective associates was considered to have any interests in the businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as Directors to represent the interests of the Company and/or the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Apart from those disclosed in the section headed "CONNECTED TRANSACTIONS", no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, either directly or indirectly, subsisted at the end of the Financial Year or at any time during the Financial Year.

RETIREMENT SCHEMES

Details of the retirement schemes operated by the Group are set out in Note 42 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISIONS

During the Financial Year and up to the date of this Report, the Company had in force indemnity provision as permitted under the relevant statutes for the benefit of the Directors (including former Directors) of the Company or its associated companies. The permitted indemnity provisions are provided for in the Bye-laws and in the directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceeding that may be brought against such Directors.

SHARE OPTION SCHEME

Under the share option scheme adopted by the Company on 30 August 2012 (the "**Share Option Scheme**"), options are granted to certain Directors, employees and other eligible participants of the Company entitling them to subscribe for shares of HK$0.02 each in the capital of the Company.

The following is a summary of the terms of the Share Option Scheme:

1. Purpose

The purpose of the Share Option Scheme is to provide incentives or rewards for the contribution of the participants to the Group and to enable the Group to recruit or retain high-calibre employees and attract human resources that are valuable to the Group.

2. Participants

The participants of the Share Option Scheme include any Directors, employees, consultants, agents or advisors of the Group or any entities in which the Group hold an interest.

3. Number of shares available for issue

Under the Share Option Scheme, the total number of shares available for issue is 45,125,849 which represent approximately 2.4% of the issued share capital of the Company as at 31 March 2018.

4. Maximum entitlement of each participant

Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any twelve month period must not exceed 1% of the shares in issue.

In addition, any share options to a substantial shareholder and/or an independent non-executive Director of the Company or any of their respective associates, and where the total number of shares issued and to be issued upon exercise of all options granted or to be granted to such person in any 12-month period exceed 0.1% of the Company's shares in issue and with an aggregate value (based on the price of the shares on the date of grant) in excess of HK$5 million, are subject to the Company's shareholders' approval in general meeting.

5. Option period

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be notified by the Directors to the grantee, but in any event such period of time must not be more than ten years from the date of grant.

6. Vesting period

The Directors may, if consider appropriate, determine the minimum period for which an option must be held before it can be exercised.

7. Amount payable on acceptance of option

Upon acceptance of the offer for an option, the grantee shall pay HK$1.00 as consideration for the grant.

8. Exercise price

The subscription price for a share in respect of any option granted shall be a price determined by the Directors at their absolute discretion but shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for five trading days immediately preceding the offer date; and (iii) the nominal value of a share.

9. Remaining life of the Scheme

The Share Option Scheme is valid and effective for a term of ten years commencing from 30 August 2012.

Details of the movements in outstanding share options, which have been granted under the Share Option Scheme, during the Financial Year were as follows:

Name or category of participants	Date of Grant	Exercise Price HK$	Exercise period	Vesting Period	Number of shares subject to options: As at 1 April 2017	Granted during the period	Lapsed during the period	Exercised during the period	As at 31 March 2018
Mr. Lo	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	3,750,000	–	–	–	3,750,000
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	17,000,000	–	–	–	17,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	18,000,000	–	–	18,000,000
Ms. Yvette Ong	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	1,250,000	–	–	–	1,250,000
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	5,000,000	–	–	–	5,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	10,000,000	–	–	10,000,000
Mr. Lo, Rex Cze Kei	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	15,000,000	–	–	15,000,000
Mr. To Hin Tsun, Gerald	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	125,000	–	–	–	125,000
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	3,000,000	–	–	–	3,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	5,000,000	–	–	5,000,000
Mr. Tsui Hing Chuen, William JP	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	125,000	–	–	–	125,000
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	3,000,000	–	–	–	3,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	5,000,000	–	–	5,000,000
Mr. Lau Wai Piu	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	125,000	–	–	–	125,000
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	3,000,000	–	–	–	3,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	5,000,000	–	–	5,000,000
Mr. Lee Kee Wai, Frank	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	5,000,000	–	–	5,000,000
Employees in aggregate (including a director of certain subsidiaries)	08-04-2013	1.280	08-04-2013 to 05-09-2017	N/A	125,000	–	(125,000)	–	–
	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	5,875,000	–	–	–	5,875,000
	09-09-2015	0.251	09-09-2015 to 05-09-2017	N/A	3,000,000	–	(3,000,000)	–	–
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	16,000,000	–	–	–	16,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	80,000,000	–	–	80,000,000
TOTAL					61,375,000	143,000,000	(3,125,000)	–	**201,250,000**

CONNECTED TRANSACTIONS

During the Financial Year, the Group had the following connected transactions and certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing Connected Transactions

2015 Tenancy Agreement

On 27 April 2015, Mongolia Energy Corporation (HK) Limited (the "**MECHK**"), a wholly-owned subsidiary of the Company, entered into a new office tenancy agreement as tenant with Cambo Management Limited (the "**Cambo Management**") as the Landlord for a term of two years at a monthly rent of HK$308,922 from 8 May 2015 to 7 May 2017 (the "**2015 Tenancy Agreement**"). The particulars of the 2015 Tenancy Agreement were disclosed in the announcement of the Company dated 27 April 2015.

2017 Tenancy Agreement

On 8 May 2017, MECHK, entered into a new office tenancy agreement as tenant with Cambo Management as the Landlord for a term of two years at a monthly rent of HK$339,800 from 8 May 2017 to 7 May 2019 (the "**2017 Tenancy Agreement**"). The particulars of the 2017 Tenancy Agreement were disclosed in the announcement of the Company dated 8 May 2017.

The Cambo Management is an investment holding company wholly and beneficially owned by Mr. Lo, who is a connected person of the Company under the Listing Rules. The transactions contemplated under the 2015 and 2017 Tenancy Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules which were subject to the reporting, announcement and annual review requirements but were exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Confirmation of Independent Non-executive Directors

Pursuant to Rule 14A.55 of the Listing Rules, the Company's independent non-executive Directors had reviewed the above continuing connected transactions and confirmed that the transactions had been entered into:

(i) in the ordinary and usual course of the Group's business;

(ii) on normal commercial terms or better; and

(iii) in accordance with the terms of the respective agreements governing such transactions that are fair and reasonable and in the interests of the Company and the shareholders as a whole.

Assurance procedures performed by the Auditor of the Company

Pursuant to Rule 14A.56 of the Listing Rules, the Company engaged its auditor to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor had issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions set out above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter had been provided to the Stock Exchange.

With regard to the Related Party Transactions as disclosed in Note 35 (other than the continuing connected transactions mentioned above) to the consolidated financial statements, they constitute fully exempt connected transactions of the Company, for all of which the applicable requirements under the Listing Rules have been duly complied with.

GROUP'S BORROWINGS

Details of the Group's borrowings are set out in Notes 27 and 28 to the consolidated financial statements.

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

During the Financial Year, neither the Company nor any of its subsidiaries has purchased, sold, or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Lau Wai Piu, Mr. Tsui Hing Chuen, William *JP* and Mr. Lee Kee Wai, Frank. Their principal duties include reviewing and supervising the Company's financial reporting process, internal control procedures and relationship with the Independent Auditor.

The audited consolidated financial statements for the year ended 31 March 2018 had been reviewed by the Audit Committee.

HUMAN RESOURCES

As at 31 March 2018, excluding site and construction workers directly employed by our contractors, the Group employed 740 full-time employees in Hong Kong, Mongolia, and the PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on a periodic basis. Apart from the retirement scheme, staff bonus, and share options are awarded to the employees according to performance of the Group, assessment of individual performance, and industry practice. Appropriate training programs are also offered for staff training and development.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules throughout the Financial Year.

INDEPENDENT AUDITOR

The consolidated financial statements have been audited by Deloitte who will retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

On behalf of the Board

Lo Lin Shing, Simon
Chairman
Hong Kong, 25 June 2018

Deloitte. 德勤

TO THE SHAREHOLDERS OF MONGOLIA ENERGY CORPORATION LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Mongolia Energy Corporation Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 58 to 122, which comprise the consolidated statement of financial position as at 31 March 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 1 to the consolidated financial statements which indicates that as at 31 March 2018, the Group had net liabilities of approximately HK$4,050 million and net current liabilities of approximately HK$1,477 million. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from a substantial shareholder who is also the Chairman and a director of the Company. If the finance was not available, the Group would be unable to meet its financial obligations as and when they fall due. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Recoverable amount assessment of property, plant and equipment, intangible assets and prepaid lease payment related to the Khushuut mine operations	
We identified the recoverable amount assessment of property, plant and equipment, intangible assets and prepaid lease payment related to the Khushuut mine operations (collectively referred to as "**Khushuut Related Assets**") as a key audit matter due to the significance of these balances to the consolidated financial statements as a whole, combined with the significant judgments and estimation uncertainty involved in the determination of the recoverable amount. As disclosed in Note 3 to the consolidated financial statements, the carrying value of the Khushuut Related Assets amounted to HK$448 million at 31 March 2018, representing 44% of the Group's total assets. Management engaged an independent valuer (the "**Valuer**") to determine the recoverable amount of the Khushuut Related Assets. For the purposes of determining the recoverable amount, the Khushuut Related Assets are treated as a cash-generating unit and its recoverable amount has been determined based on a value in use calculation, which requires management to estimate the future cash flows expected to arise from the cash-generating unit, using discounted cash flow analysis, in order to calculate the present value. Key assumptions used in the calculation include the current selling prices of coking coal, growth rate, discount rate and estimated timeline for commercial coal production. During the year ended 31 March 2018, a reversal of impairment loss in respect of the Khushuut Related Assets of approximately HK$116 million was recognised in the consolidated statement of profit or loss.	Our procedures in relation to the Group's recoverable amount assessment of the Khushuut Related Assets included: • Understanding management's impairment assessment process; • Evaluating the competence, capabilities and objectivity of the Valuer; • Engaging our internal expert to assess the reasonableness of the valuation by performing the following procedures: – assessing the reasonableness of the valuation methodology used to determine the recoverable amount; – assessing the reasonableness of the discount rate and coal prices underpinning the recoverable amount by benchmarking these inputs to market information and entity specific information; and – checking the mathematical accuracy of the calculation used in the valuation model. • Assessing the appropriateness of future operating cash flows with reference to the past performance of the Khushuut Related Assets together with management and the Valuer's expectations for the market developments; and • Assessing the disclosures in the consolidated financial statements in respect of the reversal of impairment loss on the Khushuut Related Assets with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue from coal sales	
We identified recognition of revenue from coal sales as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole. The Group's revenue from coal sales for the year ended 31 March 2018 amounted to approximately HK$637 million. As disclosed in Note 4 to the consolidated financial statements, revenue from sales of coal is recognised when the goods are delivered and titles have passed.	Our procedures in relation to recognition of revenue from coal sales included: • Understanding management's process and key controls over revenue recognition; • Checking the accuracy of revenue by agreeing the amount to billings issued to customers on a sample basis; • Evaluating the terms set out in the sales agreement and inspecting supporting documents of customers' acceptance of contract terms and acceptance of coal, on a sample basis; and • Assessing collectability of revenue from major customers, on a sample basis, by understanding their settlement history and collections after the end of the reporting period.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Wong Kuen.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 June 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	6	637,362	321,893
Cost of sales		(322,136)	(198,482)
Gross profit		315,226	123,411
Other income	7	3,541	10,607
Other gains and losses	8	(44,376)	51,116
Administrative expenses		(144,029)	(100,883)
Changes in fair value on derivative component of convertible notes	28	234,623	235,971
Reversal of impairment loss on property, plant and equipment	3, 15	107,495	–
Reversal of impairment loss on intangible assets	3, 17	8,809	–
Reversal of impairment loss on prepaid lease payment	3, 16	185	–
Impairment loss on available-for-sale financial asset	20	(58)	(77)
Impairment loss on amount due from an associate		(9)	(8)
Finance costs	9	(626,421)	(524,984)
Loss before taxation	10	(145,014)	(204,847)
Income tax expense	11	(14,924)	–
Loss for the year attributable to owners of the Company		(159,938)	(204,847)
Loss per share attributable to owners of the Company			
– basic and diluted loss per share (HK$)	14	(0.09)	(0.11)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2018

	2018 HK$'000	2017 HK$'000
Loss for the year	(159,938)	(204,847)
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translating foreign operations	19,364	2,085
Total comprehensive expense for the year attributable to owners of the Company	(140,574)	(202,762)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	*15*	419,418	256,115
Intangible assets	*17*	34,286	26,473
Exploration and evaluation assets	*18*	190	156
Interests in associates	*19*	–	–
Available-for-sale financial asset	*20*	–	–
Other asset		1,150	1,150
Prepaid lease payment	*16*	697	477
		455,741	284,371
Current assets			
Prepaid lease payment	*16*	15	10
Trade and bills receivables	*21*	204,348	159,586
Inventories	*22*	107,018	62,722
Other receivables, prepayments and deposits	*23*	55,180	34,761
Held-for-trading investments	*24*	115,037	156,713
Amounts due from associates	*19*	–	–
Cash and cash equivalents	*25*	83,448	14,197
		565,046	427,989
Current liabilities			
Trade payables	*26*	108,610	102,989
Other payables and accruals		146,885	147,403
Tax liabilities		15,703	–
Advances from a Director	*27*	1,760,438	1,613,067
Other loan	*27*	9,064	7,755
Deferred income	*29*	1,554	1,352
		2,042,254	1,872,566
Net current liabilities		(1,477,208)	(1,444,577)
Total assets less current liabilities		(1,021,467)	(1,160,206)
Non-current liabilities			
Convertible notes	*28*	3,019,544	2,761,989
Deferred income	*29*	9,054	9,196
		3,028,598	2,771,185
Net liabilities		(4,050,065)	(3,931,391)
Financed by:			
Capital and reserves			
Share capital	*31*	37,625	37,625
Reserves		(4,087,690)	(3,969,016)
Capital deficiencies attributable to owners of the Company		(4,050,065)	(3,931,391)

The consolidated financial statements on pages 58 to 122 were approved and authorised for issue by the Board of Directors on 25 June 2018 and are signed on its behalf by:

Lo Lin Shing, Simon
Director

Yvette Ong
Director

	Attributable to owners of the Company						
	Share capital HK$'000	**Share premium HK$'000**	**Contributed surplus HK$'000**	**Share options reserve HK$'000**	**Translation reserve HK$'000**	**Accumulated losses HK$'000**	**Total HK$'000**
At 1 April 2016	35,735	23,350	3,451,893	35,848	(13,527)	(7,286,183)	(3,752,884)
Loss for the year	–	–	–	–	–	(204,847)	(204,847)
Other comprehensive income							
Exchange differences arising on translation	–	–	–	–	2,085	–	2,085
Total comprehensive income (expense) for the year	–	–	–	–	2,085	(204,847)	(202,762)
Issue of ordinary shares							
Exercise of share options *(Note 31(a))*	690	13,718	–	(5,748)	–	–	8,660
Placement of new shares *(Note 31(b))*	1,200	14,400	–	–	–	–	15,600
Share issue costs *(Note 31(b))*	–	(5)	–	–	–	–	(5)
Share option lapsed	–	–	–	(12,590)	–	12,590	–
At 31 March 2017	37,625	51,463	3,451,893	17,510	(11,442)	(7,478,440)	(3,931,391)
Loss for the year	–	–	–	–	–	(159,938)	(159,938)
Other comprehensive income							
Exchange differences arising on translation	–	–	–	–	19,364	–	19,364
Total comprehensive income (expense) for the year	–	–	–	–	19,364	(159,938)	(140,574)
Equity-settled share-based payments *(Note 32)*	–	–	–	21,900	–	–	21,900
Share option lapsed	–	–	–	(600)	–	600	–
At 31 March 2018	37,625	51,463	3,451,893	38,810	7,922	(7,637,778)	(4,050,065)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

	Notes	2018 HK$'000	2017 HK$'000
Operating activities			
Loss before taxation		(145,014)	(204,847)
Interest income	*7*	(374)	(111)
Exchange loss		6,270	293
Finance costs	*9*	626,421	524,984
Loss on write off of property, plant and equipment	*8*	–	16
Gain on disposal of property, plant and equipment	*8*	(46)	(231)
Amortisation of intangible assets	*17*	1,501	1,588
Amortisation of prepaid lease payment	*16*	11	10
Amortisation of deferred income	*29*	(1,467)	(1,322)
Depreciation	*15*	8,850	11,930
Changes in fair value on held-for-trading investments	*8*	40,566	(38,916)
Changes in fair value on derivative component of convertible notes	*28*	(234,623)	(235,971)
Reversal of impairment loss on property, plant and equipment	*3, 15*	(107,495)	–
Reversal of impairment loss on intangible assets	*3, 17*	(8,809)	–
Reversal of impairment loss on prepaid lease payment	*3, 16*	(185)	–
Impairment loss on amount due from an associate		9	8
Impairment loss on available-for-sale financial asset	*20*	58	77
(Impairment loss) reversal of impairment loss on other receivables		(124)	177
Equity-settled share-based payments	*32*	21,900	–
Operating cash flows before movements in working capital		207,449	57,685
Increase in inventories		(44,296)	(40,287)
Increase in trade and bills receivables		(28,392)	(129,875)
Increase in other receivables, prepayments and deposits		(19,907)	(16,599)
Decrease in held-for-trading investments		1,110	–
Increase (decrease) in trade payables		3,251	(23,435)
(Decrease) increase in other payables and accruals		(3,342)	9,874
Net cash from (used in) operations		115,873	(142,637)
Income tax paid		–	–
Net cash from (used in) operating activities		115,873	(142,637)

	Notes	2018 HK$'000	2017 HK$'000
Investing activities			
Purchases of property, plant and equipment	*15*	(60,916)	(9,809)
Proceeds on disposal of property, plant and equipment		264	233
Purchase of intangible assets	*17*	(505)	(141)
Exploration and evaluation asset addition		(34)	(156)
Advance to an associate		(9)	(8)
Available-for-sale financial asset addition		(58)	(77)
Bank interest received		374	111
Government grants received	*29*	498	790
Net cash used in investing activities		(60,386)	(9,057)
Financing activities			
Proceeds from issue of share capital		–	24,260
Expenses on issue of share capital		–	(5)
Advances from a Director		13,600	132,433
Repayment to a Director		–	(16,700)
New other loan raised		–	7,389
Net cash from financing activities		13,600	147,377
Net increase (decrease) in cash and cash equivalents		69,087	(4,317)
Cash and cash equivalents at beginning of the year		14,197	19,237
Effect of exchange rate changes on the balance of cash held in foreign currencies		164	(723)
Cash and cash equivalents at end of the year		83,448	14,197

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the principal place of business of the Company is 17th Floor, 118 Connaught Road West, Hong Kong.

The Company acts as an investment holding company and its subsidiaries (together with the Company collectively referred to as the "**Group**") are principally engaged in (i) mining, processing and sale of coal; and (ii) other resources related business.

The consolidated financial statements are presented in Hong Kong dollar ("**HK$**"). The functional currency of the Company is United States dollar ("**US$**") as US$ better reflects the underlying transactions, events and conditions that are relevant to the Group's ongoing business. For the convenience of the financial statements users, the consolidated financial statements are presented in HK$, as the Company's shares are listed on the Stock Exchange.

In preparing the consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration to the future liquidity of the Group. While recognising that the Group had net liabilities of approximately HK$4,050.1 million and had net current liabilities of approximately HK$1,477.2 million at 31 March 2018 and incurred a loss of approximately HK$159.9 million for the year then ended, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future as Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and being the Chairman and Director of the Company, has provided facilities amounting to HK$1,900 million by way of advances to the Group. Advances from a Director of HK$1,760.4 million as at 31 March 2018 comprise principal amount and accrued interest of HK$1,296.7 million and HK$463.7 million respectively. The balance of the unutilised facilities of HK$603.3 million remains valid until 31 March 2020 and Mr. Lo does not intend to demand repayment of the loan until the Company has sufficient cash to make repayment. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"):

HKAS 7 (Amendments)	Disclosure Initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 (Amendments)	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described below, the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKAS 7 (Amendments) "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 27. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 27, the application of these amendments has had no impact on the Group's consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs and interpretations that have been issued but are not yet effective:

HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[2]
HKAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures[2]
HKAS 28 (Amendments)	As part of Annual Improvements to HKFRSs 2014-2016 Cycle[1]
HKAS 40 (Amendments)	Transfers of Investment Property[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle[2]
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[1]
HKFRS 4 (Amendments)	Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*[1]
HKFRS 9	Financial Instruments[1]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for annual periods beginning on or after a date to be determined

Except for the new and amendments to HKFRSs and Interpretations mentioned below, the Directors do not anticipate that the application of other new and amendments to HKFRSs and Interpretations will have material impact on the consolidated financial statements of the Group.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (the "**FVTOCI**"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial Instruments: Recognition and Measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 March 2018, management of the Group anticipates the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 20: even though these securities qualify for designation as measured at FVTOCI under HKFRS 9, the Group plans not to elect the option for designating these securities to be measured at FVTOCI and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, any difference between cost less impairment and fair value of these equity securities would be adjusted to accumulated losses as at 1 April 2018;

- Except for amounts due from associates which contractual cash flows may not be solely payments of principal and interest on the principal and may be measured at their fair value at the end of subsequent accounting periods, all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 "Financial Instruments" (Continued)

Impairment:

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group. As the Group's trade and bills receivables, other receivables and cash and cash equivalents do not contain a significant financing component, lifetime expected loss allowance will be recognised on these receivables upon the application HKFRS 9.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 April 2018 would not be significantly different from the accumulated amount recognised under HKAS 39.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modification, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be both presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset for prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 March 2018, the Group as lessee has non-cancellable operating lease commitments of HK$8,871,000 as disclosed in Note 33(a). A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$608,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. RECOVERABLE AMOUNT ASSESSMENT ON KHUSHUUT RELATED ASSETS

At the end of the reporting period, the Group engaged a qualified professional valuer (the "**Independent Valuer**"), who is not connected with the Group, to determine the recoverable amount of its property, plant and equipment, intangible assets and prepaid lease payment related to the Khushuut mine operations (collectively referred to as "**Khushuut Related Assets**"). For the purposes of recoverable amount assessment to assess whether there have been reversal or further impairment, the Khushuut Related Assets are treated as a cash-generating unit, which represents the Group's coking coal mining operation in Western Mongolia. The recoverable amount of the Khushuut Related Assets has been determined based on a value-in-use calculation.

As the recoverable amount of Khushuut Related Assets determined by the Independent Valuer is higher than their carrying values, a reversal of impairment loss amounting to HK$116,489,000 was recognised in the consolidated statement of profit or loss in the current year against the respective assets on a pro-rata basis with reference to their carrying values as follows:

Carrying values for the year ended 31 March 2018:

	Carrying values before reversal of impairment loss HK$'000	Reversal of impairment loss HK$'000	Carrying values after reversal of impairment loss HK$'000
Property, plant and equipment	305,657	107,495	413,152
Intangible assets	25,047	8,809	33,856
Prepaid lease payment	527	185	712
Total	331,231	116,489	447,720

The reasons for such reversal of impairment loss being recognised in profit or loss this year were mainly due to (i) an increase in price of coking coal during the year ended 31 March 2018; and (ii) the demand of coking coal which is essential for the production of steel continued to be strong due to the boom in automobile manufacturing and property development sectors. This has caused a favourable coking coal market condition. All these reasons have had significant impact on the value-in-use assessment performed by the Directors in the current year with an increase in cash flows expected to be received.

Carrying values for the year ended 31 March 2017:

	Carrying values HK$'000
Property, plant and equipment	250,934
Intangible assets	26,166
Prepaid lease payment	487
Total	277,587

In pursuant to the recoverable amount assessment, no further impairment or reversal of impairment is required in the year ended 31 March 2017 as the recoverable amount of the Khushuut Related Assets approximates the carrying value.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange of goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the result of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's and the joint venture's accounting policies to those of the Group. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net asset of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in owners interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 "Financial Instruments: Recognition and Measurement" are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated statement of profit or loss as follows:

Revenue from sale of coal

Revenue from sale of coal is recognised when the goods are delivered and titles have passed.

Interest income

Interest income is accrued on a time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to the consolidated statement of profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme (the "**MPF Scheme**") and other defined contribution retirement benefit plans are recognised as expenses when employees have rendered service entitling them to the contributions.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment arrangements (Continued)

Equity-settled share-based payment transactions (Continued)

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from loss before tax as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable nor deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in the consolidated statement of profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment including mineral properties held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Other than mining structures and mineral properties, depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Mining structures

Mining structures included deferred stripping costs and mining related property, plant and equipment. In open pit mining operations, the removal of overburden and waste materials, referred to as stripping, is required to obtain access to the ore body. Stripping costs incurred during the development phase of a mine are capitalised and form part of the cost of constructing the mining structure. Stripping costs incurred during the production phase of a surface mine are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to probably future economic benefits from the mineral structure by improving the access to the ore body, the component of the ore body for which assess has been improved is identifiable and the costs associated with that component can be reliably measured, in which case the stripping costs would be capitalised as stripping activity asset included in property, plant and equipment – mining structures.

Mining structures are depreciated on the unit-of-production method utilising only proven and probable coal reserves in the depletion base, or based on the useful lives of respective items of property, plant and equipment, whichever is appropriate.

Mineral properties

Mineral properties incorporate both the mining rights (intangible) and the underlying mineral reserve (tangible) elements. Mineral properties are classified as property, plant and equipment to the extent the tangible reserve is the more significant element. Mineral properties comprise costs of acquisition of mining rights and capitalised exploration costs which are capitalised initially under exploration and evaluation assets and transferred to property, plant and equipment as mineral properties when the technical feasibility and commercial viability of extracting mineral resources become demonstrable.

On the commencement of commercial production, depreciation of mineral properties will be provided on the unit-of-production method utilising only proven and probable coal reserves in the depletion basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction in progress

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Intangible assets

Intangible assets acquired separately

Software acquired separately and with finite useful lives is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets (exclusive right of use of paved road) are measured on initial recognition at cost. Following the initial recognition, intangible assets are stated at cost less amortisation (where the estimated useful life is finite) and impairment losses.

Intangible assets (exclusive right of use of paved road)

The exclusive right of use of paved road is amortised on a straight-line basis over its licence period.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognised.

Prepaid lease payment

Prepaid lease payment relating to leasehold land is stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The cost of prepaid lease payment is amortised on a straight-line basis over the shorter of the relevant lease/land use right or the operation period of the relevant entity.

Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses. Exploration and evaluation assets include the cost of mining and exploration rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources. When the technical feasibility and commercial viability of extracting mineral resources become demonstrable, previously recognised exploration and evaluation assets are reclassified as mining structures and mineral properties under property, plant and equipment. These assets are assessed for impairment annually before reclassification.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is reviewed at least annually and adjusted for impairment in accordance with HKAS 36 "Impairment of Assets" and whenever one of the following events or changes in circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; or
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment of tangible and intangible assets (excluding exploration and evaluation assets)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a cash generating unit for which the estimates of future cash flows have not been adjusted.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets (excluding exploration and evaluation assets) (Continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to reduce the carrying amount of the assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in the consolidated statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of production and purchase, an appropriate portion of fixed and variable overhead costs, including the stripping costs incurred during the production phase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and the costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("**FVTPL**") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in the consolidated statement of profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at FVTPL, loans and receivables and available-for-sale ("**AFS**") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss
Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near future; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Held for trading investments are stated at fair value, with any changes in fair value arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 37(c).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables and deposits, amounts due from associates and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30-60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts due from associates, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of profit or loss. When amounts due from associates are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the consolidated statement of profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Convertible notes

Convertible notes issued by the Company that contain both debt and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the debt and conversion option components are recognised at fair value.

In subsequent periods, the debt component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

Transaction costs that related to the issue of the convertible notes are allocated to the debt and derivative components in proportion to their fair value. Transaction costs relating to the derivative component are charged to consolidated statement of profit or loss. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible notes using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities (including trade payables, other payables, advances from a Director, other loan and debt component of the convertible notes) are subsequently measured at amortised cost, using the effective interest method.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated statement of profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Derecognition (Continued)

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of profit or loss.

An exchange between the Group and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are other key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's properties. In order to calculate reserves, estimates and assumptions about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices are required.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Because the economic assumptions used to estimate reserve changes from period to period, and additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- carrying values of Khushuut Related Assets may be affected due to changes in estimated future cash flows, which may result in further impairment loss or a reversal of previously recognised impairment loss on these assets; and

- depreciation, depletion and amortisation charged in the consolidated statement of profit or loss may change where such charges are determined by the unit-of-production basis, or where the useful economic lives of assets change.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Fair value of derivative financial instruments

As described in Note 28, the Directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative components of the convertible notes, Binomial Valuation Model is used for valuation of the component which involves several key assumptions and estimates including share price volatility, dividend yield and risk free rate. The Directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

As at 31 March 2018, fair value of derivative component of the convertible notes is HK$63,623,000 (2017: HK$298,246,000).

Estimated recoverable amount of Khushuut Related Assets

As described in Note 3, the Group engaged an independent valuer to determine the recoverable amount of the Khushuut Related Assets. For the purposes of recoverable amount testing, the Khushuut Related Assets are treated as a cash-generating unit and its recoverable amount has been determined based on a value in use calculation, which requires the Group to estimate the future cash flows expected to arise from the cash-generating unit, using discounted cash flow analysis, in order to calculate the present value. Key assumptions used in the calculation include the current selling price for coking coal, growth rate, discount rate and estimate timeline for commercial coal production. During the year ended 31 March 2018, a reversal of impairment loss of HK$116,489,000 (2017: Nil) was recognised against the Khushuut Related Assets as its recoverable amount is higher than (2017: approximates) its carrying value. Changes to the assumptions underlying the assessment of the recoverable amount may have a significant effect on the recoverable amount of the Khushuut Related Assets. Where there are favourable or unfavourable changes in facts and circumstances which result in revision of the estimated future cash flows for the purpose of determining the value in use, a reversal of impairment loss or further impairment loss may arise.

As at 31 March 2018, the carrying value of Khushuut Related Assets is HK$447,720,000 (net of accumulated impairment loss of HK$15,353,932,000) (2017: carrying value of HK$277,587,000, (net of accumulated impairment loss of HK$15,470,421,000)).

Deferred taxation on unused tax losses

During the year ended 31 March 2018, tax losses of approximately HK$137,360,000 (2017: HK$106,340,000) was utilised to offset income tax liabilities. No deferred tax asset has been recognised in respect of tax losses of approximately HK$195,419,000 and HK$451,733,000 as at 31 March 2018 and 2017, respectively, due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more than expected, a recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a recognition takes place.

6. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in (i) mining, processing and sale of coal; and (ii) other resources related business. Revenue represents revenue arising from the sale of coal to external customers.

The Group's operating activities are focusing on the coal mining business. Information reported to the chief operating decision maker (i.e. the Executive Directors) for the purpose of resource allocation and performance assessment focuses on types of good delivered. This is also the basis of organisation whereby the management has chosen to organise the Group.

Segment revenue and result

The following is an analysis of the Group's revenue and result by operating segment:

For the year ended 31 March 2018

	Coal mining HK$'000	Total HK$'000
Segment revenue	637,362	637,362
Segment profit	368,897	368,897
Unallocated expenses *(Note)*		(81,400)
Other income		1,113
Other gains and losses		(42,231)
Changes in fair value on derivative component of convertible notes		234,623
Impairment loss on available-for-sale financial asset		(58)
Impairment loss on amount due from an associate		(9)
Finance costs		(625,949)
Loss before taxation		(145,014)

For the year ended 31 March 2017

	Coal mining HK$'000	Total HK$'000
Segment revenue	321,893	321,893
Segment profit	101,343	101,343
Unallocated expenses *(Note)*		(56,065)
Other income		16
Other gains and losses		38,591
Changes in fair value on derivative component of convertible notes		235,971
Impairment loss on available-for-sale financial asset		(77)
Impairment loss on amount due from an associate		(8)
Finance costs		(524,618)
Loss before taxation		(204,847)

Note:

Unallocated expenses mainly include staff costs for corporate office, office rental and legal and professional fees.

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and result (Continued)

The accounting policies of the operating segment are the same as the Group's accounting policies described in Note 4. Segment profit represents the profit from the coal mining operation without allocation of expenses not directly related to the operating segment, unallocated other income, certain finance costs, certain other gains and losses, changes in fair value of derivative component of convertible notes, impairment loss on available-for-sale financial asset and amount due from an associate. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

As at 31 March 2018

	HK$'000
ASSETS	
Segment assets – coal mining	891,511
Held-for-trading investments	115,037
Cash and cash equivalents	9,080
Other unallocated assets *(Note (a))*	5,159
Consolidated total assets	1,020,787
LIABILITIES	
Segment liabilities – coal mining	245,265
Convertible notes	3,019,544
Advances from a Director	1,760,438
Other unallocated liabilities *(Note (b))*	45,605
Consolidated total liabilities	5,070,852

As at 31 March 2017

	HK$'000
ASSETS	
Segment assets – coal mining	541,000
Held-for-trading investments	156,713
Cash and cash equivalents	9,597
Other unallocated assets *(Note (a))*	5,050
Consolidated total assets	712,360
LIABILITIES	
Segment liabilities – coal mining	218,017
Convertible notes	2,761,989
Advances from a Director	1,613,067
Other unallocated liabilities *(Note (b))*	50,678
Consolidated total liabilities	4,643,751

Notes:

(a) *Other unallocated assets mainly represent property, plant and equipment, intangible assets, other asset and other receivables, prepayments and deposits not for coal mining business.*

(b) *Other unallocated liabilities mainly represent other payables and accruals not for coal mining business.*

6. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 March

Amounts included in the measure of segment profit or segment assets:

Coal mining

	2018 HK$'000	2017 HK$'000
Capital additions	60,062	9,983
Amortisation of intangible assets	1,481	1,539
Amortisation of prepaid lease payment	11	10
Interest income	355	95
Depreciation of property, plant and equipment	7,730	5,927
Reversal of impairment loss on property, plant and equipment	(107,495)	–
Reversal of impairment loss on intangible assets	(8,809)	–
Reversal of impairment loss on prepaid lease payment	(185)	–
Loss (gain) on disposal of property, plant and equipment	17	(231)
Loss on write off of property, plant and equipment	–	16

Geographical information

The Group's operations are principally located in Hong Kong, Mongolia and the People's Republic of China (the "**PRC**").

Information about the Group's revenue from external customers is presented based on location of customers:

	Revenue 2018 HK$'000	 2017 HK$'000
Mongolia	2,448	2,864
The PRC	634,914	319,029
	637,362	321,893

Information about its non-current assets is presented based on geographical location of the assets:

	Non-current assets 2018 HK$'000	 2017 HK$'000
Hong Kong	2,804	2,703
Mongolia	415,855	270,269
The PRC	37,082	11,399
	455,741	284,371

Note:

Non-current assets exclude financial instruments.

6. REVENUE AND SEGMENT INFORMATION (Continued)

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total turnover of the Group is as follows:

	2018 HK$'000	2017 HK$'000
Customer A	281,691	264,205
Customer B	190,836	N/A*
Customer C	125,324	N/A*

* *The corresponding revenue did not contribute over 10% of the total turnover of the Group.*

7. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Dividend income	1,094	–
Interest income	374	111
Government grants *(Note below and Note 29)*	1,467	1,578
Sales of obsolete materials	–	7,846
Sundry incomes	606	1,072
	3,541	10,607

Note:

During the year ended 31 March 2017, a subsidy of HK$256,000 (equivalent to approximately RMB227,000) was received for the social security expense and reward for the increased in production and efficiency and was credited to profit or loss immediately when received.

8. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Changes in fair value on held-for-trading investments	(40,566)	38,916
Loss on write off of property, plant and equipment	–	(16)
Gain on disposal of property, plant and equipment	46	231
(Impairment loss) reversal of impairment loss on other receivables	(124)	177
Reversal of loss on write off of prepayments for exploration and evaluation expenditure *(Note)*	–	7,904
Net exchange (loss) gain	(2,349)	3,904
Others	(1,383)	–
	(44,376)	51,116

Note:

Amount represented prepayment for exploration drilling which was written off by the Group during the year ended 31 March 2015. Legal action was taken by the Group to recover the amount. A judgment in favour of the Group was granted during the year ended 31 March 2017 and refund of the prepayment was received during the year ended 31 March 2018.

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on advances from a Director *(Note 27)*	133,771	114,311
Interest on other loan *(Note 27)*	472	366
Effective interest expense on convertible notes *(Note 28)*	492,178	410,307
	626,421	524,984

10. LOSS BEFORE TAXATION

	2018 HK$'000	2017 HK$'000
Loss before taxation has been arrived at after charging/(crediting):		
Directors' emoluments *(Note 12(a))*	23,330	10,898
Other staff costs:		
Salaries and other benefits (net of reimbursement from a related party *(Note 35(c)(ii)))*	66,816	59,023
Equity-settled share-based payments	12,252	–
Retirement benefits scheme contributions (excluding contributions for Directors and net of reimbursement from a related party *(Note 35(c)(ii)))*	6,942	6,245
Total staff costs	109,340	76,166
Less: staff costs capitalised in inventories	(26,381)	(26,273)
	82,959	49,893
Amortisation of prepaid lease payment	11	10
Amortisation of intangible assets	1,501	1,588
Depreciation of property, plant and equipment	8,850	11,930
Auditor's remuneration	3,600	3,480
Operating lease rental in respect of office premises (net of reimbursement from a related party *(Note 35(c)(ii)))*	3,278	2,829

11. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Current tax		
PRC Enterprise Income Tax ("**EIT**")	14,924	–
Deferred tax *(Note 30)*	–	–
	14,924	–

Hong Kong Profits Tax was calculated at 16.5% at the estimated assessable profit (if any) for both years.

PRC EIT was calculated at the applicable enterprise income tax rate of 25% on the estimated assessable profits of the Group's PRC subsidiaries (if any) for both years.

Mongolian corporate income tax was calculated at 10% to the first Mongolian Tugrik ("**MNT**") 3 billion of annual taxable income and 25% on the remaining annual taxable income for both years.

The Company is not subject to any taxation in Bermuda. Bermuda levies no tax on the income of the Group.

Only PRC EIT has been provided for current year. No provision for Hong Kong and overseas taxation has been made for both years as the Group has no assessable profit arising from operation in Hong Kong and the assessable profit arising from overseas operation was wholly absorbed by tax losses brought forward.

The tax charge for the year can be reconciled to the loss before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 HK$'000	2017 HK$'000
Loss before taxation	(145,014)	(204,847)
Calculated at a tax rate of 25%	(36,254)	(51,212)
Tax effect on income not subject to tax	(81,274)	(70,706)
Tax effect on expenses not deductible for tax purposes	174,587	150,436
Tax effect on utilisation of deductible temporary differences previously not recognised	(7,795)	(3,842)
Tax effect on tax loss not recognised	–	1,909
Utilisation of tax loss previously not recognised	(34,340)	(26,585)
Income tax expense	14,924	–

12. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and chief executive's emoluments

Directors' and the chief executive's remuneration for the year ended 31 March 2018, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

Name of Directors	Fees HK$'000	Salaries HK$'000	Discretionary bonus HK$'000	Other benefits HK$'000	Equity-settled share-based payments HK$'000	Employer's contribution to MPF Scheme HK$'000	Total HK$'000
Executive Directors							
Lo Lin Shing, Simon	–	6,000	–	244	2,757	18	9,019
Yvette Ong	–	4,416	2,000	376	1,531	18	8,341
Lo, Rex Cze Kei *(Note (a))*	100	100	–	6	2,297	3	2,506
Non-executive Director							
To Hin Tsun, Gerald	100	–	–	–	766	–	866
Independent Non-executive Directors							
Lau Wai Piu	100	–	–	–	766	–	866
Tsui Hing Chuen, William	100	–	–	–	766	–	866
Lee Kee Wai, Frank *(Note (b))*	100	–	–	–	766	–	866
	500	10,516	2,000	626	9,649	39	23,330

Directors' and the chief executive's remuneration for the year ended 31 March 2017, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

Name of Directors	Fees HK$'000	Salaries HK$'000	Other benefits HK$'000	Employer's contribution to MPF Scheme HK$'000	Total HK$'000
Executive Directors					
Lo Lin Shing, Simon	–	6,000	236	17	6,253
Yvette Ong	–	3,930	265	18	4,213
Non-executive Directors					
To Hin Tsun, Gerald	100	–	–	–	100
Lo, Rex Cze Kei *(Note (a))*	44	–	–	–	44
Independent Non-executive Directors					
Lau Wai Piu	100	–	–	–	100
Tsui Hing Chuen, William	100	–	–	–	100
Lee Kee Wai, Frank *(Note b))*	44	–	–	–	44
Peter Pun *(Note (c))*	44	–	–	–	44
	432	9,930	501	35	10,898

12. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' and chief executive's emoluments (Continued)

Notes:

(a) Lo, Rex Cze Kei was appointed as a Non-executive Director on 21 October 2016 and re-designated as an Executive Director of the Company with effect from 1 February 2018.

(b) Lee Kee Wai, Frank was appointed as an Independent Non-executive Director on 21 October 2016.

(c) Peter Pun deceased and ceased to be a Director on 6 September 2016.

Yvette Ong is the chief executive of the Group. Her emolument disclosed above included those for services rendered by her as the chief executive. She is entitled to bonus payments which are determined based on operating results.

During the years ended 31 March 2018 and 2017, no Director waived any directors' emoluments.

The emoluments of the Executive Director shown above were for their services in connection with management of the affairs of the Company and the Group.

The emoluments of the Non-executive Director and Independent Non-executive Directors shown above were for their services as Directors.

(b) Five highest paid employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2017: two) were Directors whose emoluments are included in Note 12(a) above. The emoluments of the remaining three (2017: three) highest paid individuals during the year are as follows:

	2018 HK$'000	2017 HK$'000
Basic salaries, other allowances and benefits in kind	7,447	6,415
Bonus	1,394	1,178
Contributions to MPF Scheme	36	36
Equity-settled share-based payments	5,667	–
	14,544	7,629

12. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid employees' emoluments (Continued)

The emoluments fell within the following bands:

Emolument bands	Number of individuals 2018	2017
HK$2,000,001 – HK$2,500,000	–	1
HK$2,500,001 – HK$3,000,000	–	2
HK$3,000,001 – HK$3,500,000	1	–
HK$5,500,001 – HK$6,000,000	2	–
	3	3

13. DIVIDENDS

No dividend was paid or proposed by the Company during the year ended 31 March 2018 nor has any dividend been proposed since the end of the reporting period (2017: Nil).

14. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following data:

	2018 HK$'000	2017 HK$'000
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	159,938	204,847

	2018 '000	2017 '000
Number of shares		
Number of ordinary shares for the purpose of basic and diluted loss per share	1,881,258	1,815,558

Note:

The computation of diluted loss per share for both years did not assume the exercise of share options or the conversion of the Company's outstanding convertible notes since assuming the exercise of the share options or the conversion of the convertible notes would result in a decrease in loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Mining structures HK$'000	Mineral properties *(Note)* HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Plant, machinery and other equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST									
At 1 April 2016	670,337	12,948,810	53,685	10,815	6,420	8,395	258,834	91,263	14,048,559
Exchange adjustments	–	491	(92)	(22)	(61)	(49)	(9,153)	(1,260)	(10,146)
Additions	3,132	–	3,540	106	152	47	2,311	521	9,809
Written off	–	–	–	–	(177)	(7)	–	(923)	(1,107)
Reclassification between categories	–	–	(3,357)	–	–	–	3,196	161	–
Disposals	–	–	–	–	(52)	(10)	–	(668)	(730)
At 31 March 2017	673,469	12,949,301	53,776	10,899	6,282	8,376	255,188	89,094	14,046,385
Exchange adjustments	–	2,300	91	68	118	66	17,105	1,596	21,344
Additions	5,670	–	34,580	493	1,410	678	6,389	11,696	60,916
Written off	–	–	–	–	(74)	(225)	–	(7,002)	(7,301)
Reclassification between categories	35,333	–	(86,497)	–	–	291	50,873	–	–
Disposals	–	–	–	–	–	–	–	(2,215)	(2,215)
At 31 March 2018	714,472	12,951,601	1,950	11,460	7,736	9,186	329,555	93,169	14,119,129
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
At 1 April 2016	652,636	12,731,076	52,968	4,897	4,960	5,858	251,108	86,836	13,790,339
Exchange adjustments	–	49	(66)	(21)	(46)	(28)	(8,995)	(1,073)	(10,180)
Charge for the year	264	1,077	–	5,354	845	790	1,418	2,182	11,930
Written off	–	–	–	–	(165)	(7)	–	(919)	(1,091)
Disposals	–	–	–	–	(52)	(10)	–	(666)	(728)
At 31 March 2017	652,900	12,732,202	52,902	10,230	5,542	6,603	243,531	86,360	13,790,270
Exchange adjustments	–	240	55	37	97	43	15,558	1,354	17,384
Charge for the year	861	1,157	–	601	717	599	3,020	1,895	8,850
Reversal of impairment loss recognised in profit or loss	(16,986)	(76,668)	–	–	–	–	(10,247)	(3,594)	(107,495)
Written off	–	–	–	–	(74)	(225)	–	(7,002)	(7,301)
Reclassification between categories	12,686	–	(52,092)	–	–	291	39,115	–	–
Disposals	–	–	–	–	–	–	–	(1,997)	(1,997)
At 31 March 2018	649,461	12,656,931	865	10,868	6,282	7,311	290,977	77,016	13,699,711
CARRYING VALUE									
At 31 March 2018	65,011	294,670	1,085	592	1,454	1,875	38,578	16,153	419,418
At 31 March 2017	20,569	217,099	874	669	740	1,773	11,657	2,734	256,115

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Note:

*On 16 July 2009, the Parliament of Mongolia enacted the Mining Prohibition Law (the "**MPL**") which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas and areas adjacent to rivers and lakes (the "**Defined Prohibited Areas**"). Pursuant to the MPL, the Mongolian government was supposed to define the boundaries of the relevant prohibited areas by 16 October 2009 but it had not done so by the prescribed time. It also states that any previously granted licences that overlap the Defined Prohibited Areas will be terminated within five months following the enactment of the law.*

The MPL further states that affected licence holders shall be compensated but details as to how the compensation is determined have not been specified in the MPL and the Mongolian government has not yet released any further guidance on how to interpret the MPL.

*On 18 February 2015, the Parliament of Mongolia amended the Law on Implementation of the Law on Prohibition of Exploration and Mining in Headwaters of Rivers, Protected Water Basins Zones and Forested Areas, and provided option for the licence holders to continue their operations subject to undertaking a number of obligations in operations and submit a request to the Mineral Resources and Petroleum Authority of Mongolia (the "**MRPAM**") and enter into agreement with the Ministry of Environment, Green Development and Tourism of Mongolia, MRPAM and the governor of the relevant province.*

*During the year ended 31 March 2016, MoEnCo LLC ("**MoEnCo**"), an indirect wholly-owned subsidiary of the Company, made revision to the coordinates of licensed area of 11888A which was the mining concession being affected by MPL by removing any overlap in the protected area. At 31 March 2018, the MRPAM confirmed that no mining concession (At 31 March 2017: Nil) owned by MoEnCo has partially overlapped with protected area under the MPL.*

The following estimated useful lives are used for the depreciation of property, plant and equipment:

Leasehold improvements	over unexpired lease terms
Computer equipment	3 years
Furniture, fixtures and office equipment	5 – 10 years
Plant, machinery and other equipment	10 years
Motor vehicles	5 years
Mineral properties	based on resources on a unit-of-production basis
Mining structures	based on resources on a unit-of-production basis or straight line method over 10 years, whichever is appropriate

The mineral properties incorporate both the mining rights (intangible) and the underlying mineral reserve (tangible) elements. The Directors consider the tangible reserve is the more significant element and hence the entire mineral properties are classified as property, plant and equipment.

16. PREPAID LEASE PAYMENT

	2018 HK$'000	2017 HK$'000
At beginning of the year	487	528
Amortisation	(11)	(10)
Reversal of impairment loss recognised in profit and loss	185	–
Exchange alignment	51	(31)
At the end of the year	712	487
Analysed for reporting purposes as:		
Current assets	15	10
Non-current assets	697	477
At the end of the year	712	487

Prepaid lease payment represents land use right in Xinjiang, the PRC.

17. INTANGIBLE ASSETS

	Software *(Note (a))* HK$'000	Exclusive right of use of paved road *(Note (b))* HK$'000	Total HK$'000
COST			
At 1 April 2016	3,903	1,906,297	1,910,200
Additions	141	–	141
Disposals	(6)	–	(6)
At 31 March 2017	4,038	1,906,297	1,910,335
Additions	505	–	505
At 31 March 2018	4,543	1,906,297	1,910,840
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 April 2016	3,176	1,879,104	1,882,280
Charge for the year	561	1,027	1,588
Written off	(6)	–	(6)
At 31 March 2017	3,731	1,880,131	1,883,862
Charge for the year	382	1,119	1,501
Reversal of impairment loss recognised in profit or loss	–	(8,809)	(8,809)
At 31 March 2018	4,113	1,872,441	1,876,554
CARRYING VALUE			
At 31 March 2018	430	33,856	34,286
At 31 March 2017	307	26,166	26,473

17. INTANGIBLE ASSETS (Continued)

Notes:

(a) *The software has finite useful lives and is amortised on a straight-line basis over 3 years.*

(b) *During the year ended 31 March 2009, an agreement was entered into between the Governor's Administration Office of Khovd Province of Mongolia (the "**Governor**") and MoEnCo, a wholly-owned subsidiary of the Company, regarding the right of use of a road granted by the Governor to MoEnCo subject to certain conditions. Under the terms of the agreement, MoEnCo will construct a road at its own cost from the Group's mine areas in Khushuut, Western Mongolia to the Yarant border crossing with Xinjiang, the PRC, with the construction permit granted to MoEnCo from the Ministry of Road, Transportation and Tourism of the Mongolian government. In return, MoEnCo enjoys the rights, which was granted at the date of the agreement, for the unrestricted use of the road for 30 years (the "**Approved Period**"). The road will be opened to public use subject to certain weight restrictions whereupon the Group may direct users including commercial users. The Group is also responsible for maintenance of the road during the Approved Period. The Group will use the road mainly for the purpose of transporting coal from its mine areas to its customers in the PRC.*

In the year ended 31 March 2012, the Group had completed construction of 311 km of the road and the formal approval from the Mongolian government on the road commissioning was obtained. HK$1,906,297,000, representing 311 km of road construction costs, was transferred from development in progress as an exclusive right of use of paved road under intangible assets.

The exclusive right of use of paved road has finite useful lives and is amortised on a straight-line basis over its licence period and included in the cash-generating unit with other Khushuut Related Assets for impairment assessment purpose.

18. EXPLORATION AND EVALUATION ASSETS

	Mining and exploration rights *(Note (a))* HK$'000	Others *(Note (b))* HK$'000	Total HK$'000
At 1 April 2016	–	–	–
Addition	151	5	156
At 31 March 2017	151	5	156
Addition	–	34	34
At 31 March 2018	151	39	190

Notes:

(a) *Mining and exploration rights include (i) an iron ore exploration concession of around 2,986 hectares in Western Mongolia for ferrous resources and (ii) a ternary metal exploration concession of around 10,084 hectares in Western Mongolia acquired during the year ended 31 March 2017.*

*This iron ore exploration concession has been affected by the MPL. Zvezdametrika LLC ("**Z LLC**"), an indirect wholly-owned subsidiary of the Company which owns the iron ore exploration concession, received a notice from the MRPAM during the year ended 31 March 2010 about the potential revocation of its exploration concession under the MPL and Z LLC was requested to submit the estimated compensation for termination of licences with supporting documents. After taking legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRPAM's request. The Group's legal advisers confirmed their interpretation of the relevant legislation that following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licensed area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. According to the best knowledge of management, there was no revocation of its licence at 31 March 2018.*

18. EXPLORATION AND EVALUATION ASSETS (Continued)

Notes: (Continued)

During the year ended 31 March 2015, the condition of the iron ore market in China became considerably more unfavourable due to the significant drop in iron ore prices and the continuing fall in demand. In view of the then and present market sentiment, the development and production costs are expected to be high which will be unlikely to achieve a positive return for the Group. Further, the exploration and the ongoing development of the iron mine would require additional capital by the Group and increase the Group's financial pressure in addition to the need for its coal mining business. Based on the aforesaid, management is of the view that it is not in the Group's interest to develop and retain the iron mine and has decided to concentrate the Group's resources on the re-commencement of commercial production of the Khushuut Coal Mine. In view of the then pessimistic business outlook of the iron ore industry and the significant capital investment required to develop the iron ore concession, management of the Group is of the opinion that it is unlikely to identify a potential purchaser to acquire the iron ore concession in its current condition (also taking into account the uncertainties of the application of the MPL to the concession), before the exploration licence expires in October 2020.

Also, based on the research performed by management during the year ended 31 March 2015, minimal transactions in the market in Mongolia for iron ore concessions were recorded due to the fact that current market conditions are making investment in smaller iron ore concessions uneconomical (in particular those in more remote regions without established infrastructure). Management therefore determined that the recoverable amount of this iron ore exploration concession, if any, was likely to be minimal and decided that the entire carrying amount was impaired during the year ended 31 March 2015.

During the year ended 31 March 2018, management considered that the factors mentioned above continued to apply and concluded that the recoverable amount of the iron ore concession remains minimal. Accordingly, no reversal of impairment loss was considered necessary in the current year. As at 31 March 2018, only limited exploration works were done on the iron ore concession.

(b) Others represent the expenses incurred for the concession as mentioned in Note (a).

(c) Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for three successive periods of 3 years each and mining licences for two successive periods of 20 years each.

19. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

	2018 **HK$'000**	**2017** **HK$'000**
Cost of associates		
Unlisted shares, at cost	**2,839**	2,839
Share of results	**(2,839)**	(2,839)
	–	–
Amounts due from associates	**10,958**	10,949
Impairment losses	**(10,958)**	(10,949)
	–	–

19. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES (Continued)

Details of the associates at 31 March 2018 and 2017 are as follows:

Name	Place of incorporation	Principal place of operation	Particulars of issued share capital	Interest held 2018	Interest held 2017	Principal activity
eGuanxi (Cayman) Limited	Cayman Islands	Hong Kong	6,667,000 shares of US$1.00 each	25%	25%	Inactive
Profit Billion International Private Limited ("**Profit Billion**")	Singapore	Singapore	10 shares of S$1.00 each	20%	20%	Investment holding

There is no commitment contracted but not provided for in respect of further capital investment in associates for both years.

The amounts due from associates for both years include shareholder's loans to MoOiCo LLC which is wholly owned by Profit Billion and became inactive since the year ended 31 March 2014. That amount is unsecured, interest free and repayable on demand.

Aggregate information of associates that are not individually material

	2018 HK$'000	2017 HK$'000
(Loss) profit for the year	(92)	340
Other comprehensive income for the year	–	–
Total comprehensive (expense) income for the year	(92)	340
The Group's share of profit	–	–
Aggregate carrying amount of the Group's interests in these associates	–	–

The Group has discontinued recognition of its share of losses of both associates. The amounts of unrecognised share of losses of those associates as at year ended 31 March, extracted from the relevant management accounts of associates, both for the year and cumulatively, are as follows:

	2018 HK$'000	2017 HK$'000
Unrecognised share of (loss) profit of an associate for the year	(18)	68
Cumulative unrecognised share of losses of associates	4,466	4,448

20. AVAILABLE-FOR-SALE FINANCIAL ASSET

The investment in equity securities is measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates cannot be measured reliably, wherein the impairment loss is determined by reference to the recoverable amount of the investment.

The Group had no capital commitments in respect of the investment for both years.

21. TRADE AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	46,585	18,087
Bills receivables	109,026	36,995
Accrued income *(Note)*	48,737	104,504
	204,348	159,586

Note:

Income was accrued on the basis that coals are delivered and the customer has accepted the goods and invoice will be issued within 3 months.

The Group allows a credit period of 30-60 days to its customers upon issue of invoices, except for new customers, where payment in advance is normally required.

The following is an aged analysis of trade receivables and accrued income:

	2018 HK$'000	2017 HK$'000
1-30 days	51,056	25,338
31-60 days	8,053	44,550
61-90 days	1,445	19,316
Over 90 days	34,768	33,387
	95,322	122,591

The following is an aged analysis of bills receivables:

	2018 HK$'000	2017 HK$'000
1-30 days	33,441	16,419
31-60 days	17,778	4,897
61-90 days	20,756	–
Over 90 days	37,051	15,679
	109,026	36,995

21. TRADE AND BILLS RECEIVABLES (Continued)

As of 31 March 2018, trade receivables of HK$62,000 (2017: HK$216,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The Group does not hold any collateral over these balances. The aged analysis by due date of these trade receivables is as follows:

	2018 HK$'000	2017 HK$'000
1-30 days	–	47
31-60 days	–	26
61-90 days	–	–
Over 90 days	62	143
	62	216

22. INVENTORIES

	2018 HK$'000	2017 HK$'000
Coal	101,887	58,951
Materials and supplies	5,131	3,771
	107,018	62,722

23. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2018 HK$'000	2017 HK$'000
Other receivables	2,502	10,589
Prepayments	8,075	3,864
Deposits	2,584	1,711
Others	42,019	18,597
	55,180	34,761

24. HELD-FOR-TRADING INVESTMENTS

	2018 HK$'000	2017 HK$'000
Equity securities of companies listed in Hong Kong	115,037	156,713

Fair values are determined with reference to quoted market bid prices.

25. CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Bank balances and cash	83,448	14,197

There was no short-term deposit placed for both years. Cash at bank earns interest at rates based on daily bank deposit rates.

26. TRADE PAYABLES

The aged analysis of trade payables presented based on invoice date at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
0 to 30 days	54,315	15,764
31 to 60 days	1,359	20,828
61 to 90 days	506	9,616
Over 90 days	52,430	56,781
	108,610	102,989

27. BORROWINGS

	2018 HK$'000	2017 HK$'000
Unsecured – at amortised cost		
Advances from a Director *(Note (a))*	1,760,438	1,613,067
Other loan *(Note (b))*	9,064	7,755
Convertible notes *(Note 28)*	2,955,921	2,463,743
	4,725,423	4,084,565
Analysed for reporting purposes as:		
Current liabilities	1,769,502	1,620,822
Non-current liabilities	2,955,921	2,463,743
	4,725,423	4,084,565

Reconciliation liabilities arising from financing activities

	Advances from a Director HK$'000	Other loan HK$'000	Convertible notes HK$'000	Total HK$'000
At 31 March 2017	1,613,067	7,755	2,463,743	4,084,565
Financing cash flows	13,600	–	–	13,600
Interest charge *(Note 9)*	133,771	472	492,178	626,421
Exchange adjustments	–	837	–	837
At 31 March 2018	1,760,438	9,064	2,955,921	4,725,423

27. BORROWINGS (Continued)

Notes:

(a) *The advances are related to the facility granted by Mr. Lo as set out in Note 1. The amounts are unsecured and repayable on demand. Mr. Lo does not intend to demand repayment until the Company has sufficient cash to make repayment. The interest expense is charged at the Hong Kong Dollar Prime Rate plus 3% for both years.*

(b) *The other loan is unsecured and repayable on demand with principal amount of HK$7.4 million. The interest expense was charged at 6% per annum.*

28. CONVERTIBLE NOTES

The movement of the debt and derivative components of convertible notes for the year is set out below:

	Debt component		Derivative component		Total	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
At beginning of the year	2,463,743	2,053,436	298,246	534,217	2,761,989	2,587,653
Interest charge	492,178	410,307	–	–	492,178	410,307
Changes in fair value of derivative component	–	–	(234,623)	(235,971)	(234,623)	(235,971)
At end of the year	2,955,921	2,463,743	63,623	298,246	3,019,544	2,761,989

2014 Convertible Notes with maturity date 21 November 2019

In prior years, the Company issued HK$200 million 5% convertible note to Golden Infinity Co., Ltd. ("**Golden Infinity**") (the "**5% GI Convertible Note**"), HK$200 million 5% convertible note to Chow Tai Fook Nominee Limited ("**CTF**") (the "**5% CTF Convertible Note**") and HK$2 billion 3% convertible note to CTF (the "**3% CTF Convertible Note**").

On 19 September 2014, the Company entered into the subscription agreements with CTF, Golden Infinity and the holders of the 3.5% convertible notes with principal amount in aggregate amount of HK$466.8 million (the "**3.5% OZ Convertible Note**"), who conditionally agreed to subscribe for new 5-year 3% convertible notes at the subscription price which would be used for full settlement of the outstanding principal amount and accrued interest of the 5% GI Convertible Note, the 3% CTF Convertible Note, the 3.5% OZ Convertible Note and the 5% CTF Convertible Note.

On 21 November 2014, the Company issued convertible notes at HK$2,424,822,000, HK$542,315,000 and HK$499,878,000 to CTF, Golden Infinity and the holders of the 3.5% OZ Convertible Note respectively (the "**2014 Convertible Notes**"). The 5% GI Convertible Note, 5% CTF Convertible Note and 3.5% OZ Convertible Note were derecognised on the same date.

28. CONVERTIBLE NOTES (Continued)

2014 Convertible Notes with maturity date 21 November 2019 (Continued)

The 2014 Convertible Notes with principal amount of HK$3,467,015,000 has a maturity period of five years from the issue date to 21 November 2019. It can be converted into 1 ordinary share of the Company of HK$0.02 each for every HK$0.87 (adjusted) convertible note at the holders' option at any time between the issue date and the maturity date. The outstanding principal amount would be redeemed at par value on the maturity date or at the issuer's option redeemed at par plus outstanding coupon payment at any time between the issue date and the maturity date. Interest of 3% per annum will be paid in arrears on the maturity date.

The 2014 Convertible Notes contains two components, a debt component and a derivative component with a conversion option derivative of the holders and a callable option derivative of the issuer. The effective interest rate of the debt component is 19.96%. The derivative component with a conversion option derivative of the holders is measured at fair value with changes in fair value as the 2014 Convertible Notes is denominated in HK$, which is different from the functional currency of the Company (i.e. US$) whereas the fair value of the derivative component with a callable option derivative considered is immaterial as at 31 March 2018 and 2017.

Binomial Valuation Model is used for the valuation of the derivative component. The major inputs into the model were as follows:

	21 November 2014	31 March 2017	31 March 2018
Stock price	HK$0.63	HK$0.26	**HK$0.18**
Exercise price	HK$0.92	HK$0.87	**HK$0.87**
Volatility *(Note (a))*	102.00%	82.02%	**83.31%**
Dividend yield	0%	0%	**0%**
Option life *(Note (b))*	5 years	2.64 years	**1.64 years**
Risk free rate	1.23%	1.00%	**1.29%**

Notes:

(a) The volatility used in the model was determined by reference to the historical volatility of the Company's share price.

(b) The option life as at 31 March 2018 was based on the maturity date of the notes.

The fair value of the derivative component of 2014 Convertible Notes was determined with reference to a valuation report carried out by an independent valuer.

No conversion was made during the year ended 31 March 2018.

29. DEFERRED INCOME

	2018 HK$'000	2017 HK$'000
At beginning of the year	10,548	11,756
Granted *(Note)*	498	790
Credited to profit or loss	(1,467)	(1,322)
Exchange adjustment	1,029	(676)
At end of the year	10,608	10,548
Analysed for reporting purposes as:		
Current liabilities	1,554	1,352
Non-current liabilities	9,054	9,196
	10,608	10,548

Note:

During the year ended 31 March 2018, a grant of HK$498,000 (equivalent to approximately RMB400,000) (2017: HK$790,000 (equivalent to approximately RMB700,000)) was received for the improvement of the machinery and facilities in the washing plant in Xinjiang, the PRC.

30. DEFERRED TAXATION

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 March 2018, estimated tax losses of the Group not utilised amounted to HK$195,419,000 (2017: HK$451,733,000). Of the unutilised tax losses as at 31 March 2017, an amount of HK$118,954,000 was expired during the year. No deferred tax asset has been recognised for these tax losses as it is uncertain as to whether there will be sufficient future taxable profits to utilise these tax losses. Except for tax losses of HK$148,447,000 (2017: HK$404,761,000) expiring within 4 years, the remaining balances have no expiry date.

At the end of the reporting period, the Group has deductible temporary differences of HK$2,107,074,000 (2017: HK$2,138,253,000) due to the impairment loss recognised on Khushuut Related Assets. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

31. SHARE CAPITAL

Authorised and issued share capital

	2018 HK$'000	2017 HK$'000
Authorised: 15,000,000,000 ordinary shares of HK$0.02 each	300,000	300,000

	Number of ordinary shares at HK$0.02 each	Amount HK$'000
Issued and fully paid:		
At 1 April 2016	1,786,758,499	35,735
Issue of ordinary shares		
Exercise of share options *(Note (a))*	34,500,000	690
Placement of new shares *(Note (b))*	60,000,000	1,200
At 31 March 2017 and 2018	1,881,258,499	37,625

Notes:

(a) *During the year ended 31 March 2017, share options were exercised to subscribe for 34,500,000 ordinary shares of the Company at a consideration of approximately HK$8,660,000 of which approximately HK$690,000 was credited to share capital and approximately HK$13,718,000 was credited to the share premium account. As a result of the exercise of share options, share options reserve of HK$5,748,000 had been transferred to the share premium account.*

(b) *On 17 January 2017, the Company completed a placing of 60,000,000 shares at a subscription price of HK$0.26 per share. These new shares rank pari passu in all respect with the existing shares. Net proceeds of the placement amounted to approximately HK$15,595,000. The difference between the net proceeds and the par value of share capital issued amounting to HK$14,395,000 was credited to the share premium account.*

32. SHARE-BASED PAYMENT

Equity-settled share option scheme

Under the share option schemes adopted by the Company on 30 August 2012, options were granted to certain Directors, employees and consultants of the Group entitling them to subscribe for shares of the Company. Options may be exercised at any time from the date of grant of the share options.

As the fair value of the services cannot be estimated reliability, the Binominal Valuation Model has been used to estimate the fair value of the options.

Movements of share options outstanding and their weighted average exercise prices are as follows:

	2018 Weighted average exercise price per share HK$	 Number of share options	2017 Weighted average exercise price per share HK$	 Number of share options
Exercisable at beginning of the year	0.4417	61,375,000	0.5843	103,500,000
Granted	0.2260	143,000,000	–	–
Exercised	–	–	0.2510	(34,500,000)
Lapsed	0.2922	(3,125,000)	3.2400	(7,625,000)
Exercisable at end of the year	0.2908	201,250,000	0.4417	61,375,000

32. SHARE-BASED PAYMENT (Continued)

Equity-settled share option scheme (Continued)

No share options were exercised during the year (2017: 34,500,000).

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Share options outstanding at the end of the reporting period have the following exercisable period and exercise price:

Date of grant	Exercise price HK$	Exercisable period	Number of shares subject to options 2018	2017
08-04-2013	1.280	08-04-2013 to 07-04-2018	11,250,000	11,375,000
09-09-2015	0.251	09-09-2015 to 08-09-2020	47,000,000	50,000,000
01-09-2017	0.226	01-09-2017 to 31-08-2022	143,000,000	–
			201,250,000	61,375,000

The fair values of options granted during the year ended 31 March 2018 were determined as follows:

	At 1 September 2017
Option value (at grant date)	HK$21,900,000
Fair value per option (at grant date)	HK$0.1531
Significant inputs into the valuation model:	
Exercise price	HK$0.226
Share price at grant date	HK$0.225
Expected volatility *(Note (a))*	87.85%
Risk-free interest rate	1.10%
Life of options	5 years
Expected dividend yield	0%
Valuation model applied	Binomial
Vesting period	Vest upon grant

Notes:

(a) *The expected volatility is with reference to historical price volatility of the Company over the expected option period.*

(b) *HK$21,900,000 expense in relation to share options granted was recognised during the year ended 31 March 2018.*

33. COMMITMENTS

In addition to those disclosed elsewhere in the consolidated financial statements, the Group has the following commitments:

(a) Commitments under operating leases

The Group as lessee

As at 31 March 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of offices and staff quarters as follows:

	2018 HK$'000	2017 HK$'000
Not later than one year	6,070	1,227
Later than one year and not later than five years	2,801	462
	8,871	1,689

Operating leases relate to offices and staff quarters with lease terms of between 1 to 3 years (2017: 1 to 4 years).

(b) Capital commitments

As at 31 March 2018, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to HK$18,742,000 (2017: HK$27,413,000). These commitments are for the following projects:

	2018 HK$'000	2017 HK$'000
Construction of new stockpile area	1,146	–
Other exploration related commitments	253	253
Purchase of property, plant and equipment	1,552	7,646
Road improvement and drilling equipment transport	11,968	11,968
Wash plant	3,484	7,249
Others	339	297
	18,742	27,413

34. CONTINGENT LIABILITIES

During the year ended 31 March 2013, the Company and MoEnCo disputed the services provided and the amount charged by the former mining contractor and accordingly, refused to settle the contractor fees as claimed by the former mining contractor.

The former mining contractor issued two writ of summons on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK$93.7 million. In May 2015, the former mining contractor applied to Court to amend its statements of claim under the two writs by amending, among others, (i) the currency of the claims from Mongolian Tugrik to United States dollars; and (ii) the amount of the claim to include the alleged contractor's fees up to October 2014. According to amended statement of claims, two writ of summons make the total claims at approximately HK$198.9 million. In April 2016, a mediation meeting between the Company and the former mining contractor was held before a mediator but the parties were unable to reach a settlement agreement, thus the mediation was terminated and the legal proceedings moved on. In September 2016, the Company received a revised statement of claim consolidating the two actions with a claim amount of approximately HK$105.6 million from the former mining contractor, of which approximately HK$50.0 million was provided for in the consolidated financial statements as at 31 March 2018 (2017: HK$50.0 million). Based on the opinion provided by legal counsel of the Company, the Directors consider that the payment of the remaining balance is not probable.

35. RELATED PARTY TRANSACTIONS

(a) Advances from Mr. Lo

	2018 HK$'000	2017 HK$'000
Balance of advances *(Note 27)*	1,760,438	1,613,067
Interest charge for the year *(Note 27)*	133,771	114,311

(b) Other loan payable to and interest charge on convertible note by a related party – Golden Infinity

	2018 HK$'000	2017 HK$'000
Convertible note payable	474,521	458,663
Interest charge on convertible note for the year *(Note (ii))*	16,269	16,269

Notes:

(i) Mr. Lo has a controlling interest in Golden Infinity. Details of the convertible note held by Golden Infinity are set out in Note 28.

(ii) Amount represents nominal interest charge on convertible note. The effective interest expense on convertible note for the year is approximately HK$76,955,000 (2017: HK$64,181,000).

35. RELATED PARTY TRANSACTIONS (Continued)

(c) Transactions with related parties

	2018 HK$'000	2017 HK$'000
Rental expenses paid to related parties *(Note (i))*	4,332	3,840
Reimbursement of sharing of administrative services from a related party *(Notes (i) and (ii))*	9,146	10,327

Notes:

(i) Mr. Lo is one of the directors or the sole director of the related parties.

(ii) On 10 July 2015, the Group entered into a share of administrative service agreement with a related party in relating to sharing of office space of the Group's Hong Kong office, supporting staff and other facilities. The service is charged at cost basis. The Group further renewed the contract with the related party on 30 June 2017 and extended the agreement for a period of 1 year.

(d) Balance with related parties

	2018 HK$'000	2017 HK$'000
Rental deposits paid to related parties *(Note)*	425	393

Note:

Mr. Lo is one of the directors or the sole director of the related parties.

(e) Key management compensation

The remuneration of Directors, represented key management of the Group, during the year was as follows:

	2018 HK$'000	2017 HK$'000
Basic salaries, other allowances and benefits in kind	13,643	10,863
Equity-settled share-based payments	9,648	–
Contributions to MPF Scheme	39	35
	23,330	10,898

Note:

During the year ended 31 March 2018, 63,000,000 share options were granted to the Directors. Options granted were immediately vested at the date of grant.

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes other loan, advances from a Director disclosed in Note 27 and convertible notes disclosed in Note 28, net of cash and cash equivalents and equity of the Group, comprising share capital and reserves.

Management of the Group reviews the capital structure regularly, taking into account the cost and risk associated with the capital. The Group will balance its capital structure through new shares issues, the issue of new debt or the redemption of the existing debts.

37. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	291,878	185,243
Available-for-sale financial asset	–	–
Held-for-trading investments	115,037	156,713
Financial liabilities		
Measured at amortised cost	4,948,081	4,303,098
Embedded derivative component of convertible notes	63,623	298,246

b. Financial risk management objectives and policies

The Group's financial instruments include trade and bills receivables, other receivables and deposits, available-for-sale financial asset, held-for-trading investments, cash and cash equivalents, trade payables, other payables, advances from a Director, other loan and convertible notes. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk

(i) Currency risk

The Group mainly operates in Hong Kong, the PRC and Mongolia. The exposure to foreign currency risk mainly arises from trade receivables, other receivables, cash and cash equivalents, trade payables, other payables, advances from a Director, and convertible notes denominated in currencies other than functional currency of the relevant group entities.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		**Assets**	
	2018	**2017**	**2018**	**2017**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
HK$	4,724,080	4,085,394	5,525	6,323
Renminbi ("**RMB**")	21,769	45,866	104	8,385
MNT	41,046	24,446	10,600	4,828

The Group does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The currency risk on HK$ is insignificant as the HK$ is pegged with the US$.

The Group is mainly exposed to the currencies of RMB and MNT against US$, the functional currency of relevant group entities.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in US$ against the relevant foreign currencies. 5% (2017: 5%) is the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. A positive/negative number below indicates an increase/decrease in post-tax loss where US$ weakening 5% (2017: 5%) against RMB and MNT respectively. For a 5% (2017: 5%) strengthen of US$ against RMB and MNT respectively, there would be an equal and opposite impact on the loss, vice versa.

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) *Currency risk (Continued)*

	RMB		MNT	
	2018 HK$'000	**2017 HK$'000**	**2018 HK$'000**	**2017 HK$'000**
Increase in loss for the year *(Note)*	1,083	1,874	1,522	981

Note:

This is mainly attributable to the exposure from outstanding trade and other receivables, cash and cash equivalents and trade and other payables denominated in RMB and MNT at the end of the reporting period.

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate other loan and convertible notes (see Note 28). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 25) and advances from a Director (see Note 27).

The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group's cash flow interest rate risk is mainly due to the Hong Kong Prime Rate in relation to advances from a Director.

Sensitivity analysis

The Group's interest rate risk arises principally from advances from a Director as the effect on bank balances is considered not significant. The sensitivity analysis below has been prepared assuming that the change in interest rate had occurred at the end of the respective reporting period and had been applied to the exposure to interest rate risk for the existence of advances from a Director at that date and outstanding for the whole year. The 50 basis points represent the best estimation of the possible change in the interest rates over the period until the end of the next reporting period.

As at 31 March 2018, if interest rates had decreased/increased by 50 basis points and all other variables were held constant, the Group's loss for the year would decrease/increase by HK$8,787,000 (2017: HK$6,416,000). The Group has no other significant interest rate risk.

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(iii) Other price risk

(a) Price risk on equity securities

The Group is exposed to equity price risk through its investments in listed equity securities classified as held-for-trading investments. Management regularly reviews the expected returns from holding these investments on an individual basis.

The Group's equity price risk is mainly concentrated on an entity operating in the network security industry.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period for held-for-trading investments.

If the listed share prices of the respective equity instruments had been 5% higher/lower, the loss for the year ended 31 March 2018 would decrease/increase by HK$5,752,000 (2017: HK$7,836,000) as a result of the changes in fair value of held-for-trading investments.

The Group is also exposed to equity price risk in relating to its available-for-sale investment. No sensitivity analysis has been performed as the investment is measured at cost less impairment and management considers that the risk is insignificant. As at 31 March 2018, the investment has been fully impaired.

(b) Price risk on embedded derivatives components of the convertible notes (defined in Note 28)

For the year ended 31 March 2018, the Company is required to estimate the fair value of the derivative component of the convertible notes, including conversion options, with changes in fair value to be recognised in the consolidated statement of profit or loss as long as the convertible notes are outstanding. The fair value will be affected either positively or negatively, amongst others, by the changes in the Company's share price, share price volatility and risk free rate.

Sensitivity analysis

If the listed share price of the Company had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the year would increase by HK$7,083,000 (2017: HK$22,503,000)/decrease by HK$5,758,000 (2017: HK$39,239,000), as a result of changes in fair value of the derivative component of the convertible notes.

If the volatility of listed share prices of the Company had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the year would increase by HK$9,986,000 (2017: HK$27,999,000)/decrease by HK$8,924,000 (2017: HK$45,162,000), as a result of changes in fair value of the derivative component of the convertible notes.

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(iii) Other price risk (Continued)

(b) Price risk on embedded derivatives components of the convertible notes (defined in Note 28) *(Continued)*

In management's opinion, the sensitivity analyses above are unrepresentative of the inherent price risk as the pricing model used in the valuation of these embedded derivatives involves multiple variables and certain variables are interdependent.

Credit risk

As at 31 March 2018, the Group's maximum exposure to credit risk which would cause a financial loss to the Group due to failure to discharge an obligation by the counterparties was arising from the carrying amounts of the trade and bills receivables, other receivables and cash and cash equivalents as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Other than concentration risk on liquid funds which are deposited with banks that have good credit ratings, the Group has concentration of credit risk as 44% (2017: 87%) of the total trade and bills receivables was due from the Group's largest customer within the coal mining segment.

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings. The amount of net current liabilities is HK$1,477,208,000 (2017: HK$1,444,577,000).

As at 31 March 2018, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future as Mr. Lo has provided facilities amounting to HK$1,900.0 million by way of advances to the Group. Advances from a Director of HK$1,760.4 million as at 31 March 2018 comprised principal amount and accrued interest of HK$1,296.7 million and 463.7 million respectively. The balance of the unutilised facilities of HK$603.3 million remained valid until 31 March 2020 to meet the Group's future funding needs. Mr. Lo does not intend to demand repayment until the Company has sufficient cash to make repayment.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal of cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

2018

	Weighted average effective interest rate %	Less than 1 month or repayable on demand HK$'000	1 to 3 months HK$'000	3 months to 1 year HK$'000	1 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 March 2018 HK$'000
Trade payables *(Note 26)*	–	108,610	–	–	–	108,610	108,610
Other payables	–	82,344	6,213	25,491	–	114,048	114,048
Other loan – fixed rate	6%	9,064	–	–	–	9,064	9,064
Advances from a Director – floating rate *(Note 27)*	8%	1,760,438	–	–	–	1,760,438	1,760,438
Convertible notes (debt component) – fixed rate *(Note 28)*	19.96%	–	–	–	3,987,067	3,987,067	2,955,921
		1,960,456	6,213	25,491	3,987,067	5,979,227	4,948,081

2017

	Weighted average effective interest rate %	Less than 1 month or repayable on demand HK$'000	1 to 3 months HK$'000	3 months to 1 year HK$'000	1 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 March 2017 HK$'000
Trade payables *(Note 26)*	–	102,478	511	–	–	102,989	102,989
Other payables	–	81,011	5,489	29,044	–	115,544	115,544
Other loan – fixed rate	6%	7,755	–	–	–	7,755	7,755
Advances from a Director – floating rate *(Note 27)*	8%	1,613,067	–	–	–	1,613,067	1,613,067
Convertible notes (debt component) – fixed rate *(Note 28)*	19.96%	–	–	–	3,987,067	3,987,067	2,463,743
		1,804,311	6,000	29,044	3,987,067	5,826,422	4,303,098

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

37. FINANCIAL INSTRUMENTS (Continued)

c. Fair value measurements of financial instruments

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Fair value measurements and valuation processes

The Executive Directors are responsible for determining the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Executive Directors work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Executive Directors review the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities is disclosed above.

The Group's held-for-trading investments and embedded derivative component of convertible notes are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

Financial assets/financial liabilities	Fair value as at 31 March 2018	2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input	Relationship of unobservable input to fair value
1) Listed equity securities classified as held-for-trading investments	HK$115,037,000	HK$156,713,000	Level 1	– Quoted bid prices in an active market	N/A	N/A
2) Embedded derivatives component of convertible notes	HK$63,623,000	HK$298,246,000	Level 3	– Binomial Valuation Model – The key inputs are stock price, exercise price, option life, risk free rate, volatility and dividend yield	– Volatility is 83.31% (2017: 82.02%)	– A slight increase in the volatility would result in significant higher fair value measurement, and vice versa *(Note)*

Note:

Sensitivity analysis is performed in Note 37(b).

There was no transfer between Levels 1 and 3 for both years.

37. FINANCIAL INSTRUMENTS (Continued)

c. Fair value measurements of financial instruments (Continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Reconciliation of Level 3 fair value measurements of financial liabilities

	Embedded derivatives component of convertible notes HK$'000
At 1 April 2016	534,217
Changes in fair value recognised in the consolidated statement of profit or loss	(235,971)
At 31 March 2017	298,246
Changes in fair value recognised in the consolidated statement of profit or loss	(234,623)
At 31 March 2018	63,623

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

38. MAJOR NON-CASH TRANSACTIONS

Apart from the non-cash transactions disclosed in Note 32, the Group has no other major non-cash transactions for both years.

39. STATEMENT OF FINANCIAL POSITION – THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Amounts due from subsidiaries	302,083	127,115
Interests in subsidiaries	380,141	306,630
Interests in associates	–	–
	682,224	433,745
Current assets		
Other receivables, prepayments and deposits	1,072	9,098
Amounts due from associates	–	–
Cash and cash equivalents	5,470	6,203
	6,542	15,301
Current liabilities		
Other payables and accruals	48,347	48,671
Advances from a Director	1,760,438	1,613,067
Amount due to a subsidiary	205,414	205,419
	2,014,199	1,867,157
Net current liabilities	(2,007,657)	(1,851,856)
Total assets less current liabilities	(1,325,433)	(1,418,111)
Non-current liability		
Convertible notes	3,019,544	2,761,989
Net liabilities	(4,344,977)	(4,180,100)
Financed by:		
Capital and reserves		
Share capital	37,625	37,625
Reserves	(4,382,602)	(4,217,725)
Capital deficiencies attributable to owners of the Company	(4,344,977)	(4,180,100)

40. RESERVE – THE COMPANY

	Share premium	Contributed surplus *(Note)*	Share options reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2016	23,350	3,451,893	35,848	(7,407,476)	(3,896,385)
Loss for the year	–	–	–	(343,705)	(343,705)
Issue of ordinary shares					
Exercise of share options	13,718	–	(5,748)	–	7,970
Placement of new shares	14,400	–	–	–	14,400
Share issue costs	(5)	–	–	–	(5)
Share option lapsed	–	–	(12,590)	12,590	–
At 31 March 2017	**51,463**	**3,451,893**	**17,510**	**(7,738,591)**	**(4,217,725)**
Loss for the year	**–**	**–**	**–**	**(186,777)**	**(186,777)**
Equity-settled share-based payments	**–**	**–**	**21,900**	**–**	**21,900**
Share option lapsed	**–**	**–**	**(600)**	**600**	**–**
At 31 March 2018	**51,463**	**3,451,893**	**38,810**	**(7,924,768)**	**(4,382,602)**

Note:

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders, subject to the condition that the Company shall not declare or pay a dividend, or make a distribution out of the contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 March 2018 and 2017:

Name of subsidiaries	Place of incorporation/ establishment	Particulars of issued share capital/registered capital	Effective interest held 2018	Effective interest held 2017	Place of operation	Principal activities
Cyber Network Technology Limited*	British Virgin Islands	1 share of US$1.00	**100%**	100%	Hong Kong	Investment holding
Gamerian Limited*	British Virgin Islands	1 share of US$1.00	**100%**	100%	Hong Kong	Investment holding
Mongolia Energy Corporation (Greater China) Limited*	Hong Kong	2 shares with no par value	**100%**	100%	Hong Kong	Management services
Mongolia Energy Corporation (HK) Limited*	Hong Kong	1 share with no par value	**100%**	100%	Hong Kong	Management services
Mongolia Energy Corporation Services Limited*	Hong Kong	2 shares with no par value	**100%**	100%	Hong Kong	Provision of secretarial and nominee services
MoEnCo	Mongolia	1,010,000 shares of US$1.00 each	**100%**	100%	Mongolia	Minerals exploration and mining activities
烏魯木齊蒙富礦業有限公司#	The PRC	RMB14,299,899	**100%**	100%	The PRC	Provision of mining and exploration advisory service
新疆蒙科能源科技有限公司#	The PRC	RMB216,415,136	**100%**	100%	The PRC	Trading of coal and operation of wash plant

* *Subsidiaries directly held by the Company*
\# *Wholly foreign owned enterprise established in the PRC*

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

42. RETIREMENT BENEFITS SCHEME

The MPF Scheme is available to all employees aged 18 to 65 and with at least 59 days of service under employment in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum relevant income for contribution purposes is HK$30,000 (2017: HK$30,000) per month. The employees are entitled to the full benefit of the Group's contributions and accrued returns irrespective of their length of service with the Group but the benefits are required by law to be presented until the retirement age of 65.

The employees of the Group's subsidiaries which operate in Mongolia are required to participate in the social insurance scheme operated by the local government. According to the "Social Insurance Law of Mongolia", these subsidiaries have a duty to withhold 10% from employees' salary or similar income and 13% as employers' contribution. Employers' contributions are charged to profit or loss as they become payable in accordance with the social insurance scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal governments. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

FIVE YEARS SUMMARY OF RESULTS, ASSETS AND LIABILITIES

	Results of the Group for the year ended 31 March				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000
Turnover	498	12,259	156,701	321,893	**637,362**
Loss attributable to owners of the Company	(1,038,124)	(6,868,030)	(553,455)	(204,847)	**(159,938)**
Loss per share (HK cents) *(Note)*	(Restated)				
– Basic	0.61	4.07	0.32	0.11	**0.09**
– Diluted	0.61	4.07	0.32	0.11	**0.09**

	Assets and liabilities of the Group at 31 March				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000
Total assets	8,056,158	1,105,189	499,694	712,360	**1,020,787**
Less: total liabilities	(4,428,111)	(4,344,040)	(4,252,578)	(4,643,751)	**(5,070,852)**
Total net assets (liabilities)	3,628,047	(3,238,851)	(3,752,884)	(3,931,391)	**(4,050,065)**

Note: As a result of the capital reorganisation completed on 12 November 2014, figures for 2014 have been restated for comparative purpose.

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Lo Lin Shing, Simon *(Chairman)*
Ms. Yvette Ong *(Managing Director)*
Mr. Lo, Rex Cze Kei

Non-executive Director

Mr. To Hin Tsun, Gerald

Independent Non-executive Directors

Mr. Tsui Hing Chuen, William *JP*
Mr. Lau Wai Piu
Mr. Lee Kee Wai, Frank

COMPANY SECRETARY

Mr. Tang Chi Kei

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Public Bank (Hong Kong) Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

BRANCH SHARE REGISTRAR

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

17/F, 118 Connaught Road West
Hong Kong

Tel: (852) 2138 8000
Fax: (852) 2138 8111

WEBSITE ADDRESS

http://www.mongolia-energy.com

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CHINESE TRANSLATION

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Mongolia Energy Corporation Limited

17th Floor, 118 Connaught Road West, Hong Kong

Tel : (852) 2138 8000
Fax : (852) 2138 8111
Website : www.mongolia-energy.com