亞洲煤業
ASIA COAL

# Asia Coal Limited
# 亞洲煤業有限公司

Stock Code: 835

## Annual Report 2017/18

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

ZHU Xinjiang *(Chairman)*
CHEUNG Siu Fai
LENG Xiaokang

### Independent Non-executive Directors

Edward John HILL III
HO Man Kin, Tony
LI Kar Fai, Peter

## AUDIT COMMITTEE

LI Kar Fai, Peter *(Chairman)*
Edward John HILL III
HO Man Kin, Tony

## REMUNERATION COMMITTEE

HO Man Kin, Tony *(Chairman)*
Edward John HILL III
LI Kar Fai, Peter

## NOMINATION COMMITTEE

ZHU Xinjiang *(Chairman)*
HO Man Kin, Tony
LI Kar Fai, Peter

## COMPANY SECRETARY

CHAN Kwong Leung, Eric

## AUDITOR

Deloitte Touche Tohmatsu
35/F., One Pacific Place
88 Queensway
Hong Kong

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit A, 60/F
Bank of China Tower
1 Garden Road
Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

## PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

## LEGAL ADVISER AS TO HONG KONG LAWS

Shirley Lau & Co. LLP
In association with CMS Hasche Sigle, Hong Kong LLP
17th Floor, Sun House
90 Connaught Road Central
Hong Kong

## WEBSITE ADDRESS

www.asiacoallimited.com

## SHARE LISTING

Listed on The Stock Exchange of Hong Kong Limited
Stock Code: 835

# Management Discussion and Analysis

## BUSINESS REVIEW

During the year, Asia Coal Limited (the "Company", together with its subsidiaries, the "Group") continued to engage in coal mining and coal trading business.

## FINANCIAL REVIEW

### Results Analysis

For the year ended 31st March 2018, the Group's consolidated revenue was approximately HK$4,744,000, representing a 58% decrease as compared to the previous financial year. The gross profit decreased from HK$517,000 of the previous financial year to approximately HK$208,000 for the year. The gross profit margin decreased slightly from 5% of the previous financial year to 4% for the year.

Loss attributable to owners of the Company decreased to approximately HK$37 million from HK$57 million as recorded in the previous financial year. Such decrease was mainly due to the decrease in legal and professional fee amounting to HK$15 million, staff costs of HK$4 million and exchange difference of HK$9 million, the effect of which was partly offset by the additional finance costs of approximately HK$8 million.

### Segmental Analysis

#### Coal Mining

As disclosed in the Company's annual report for the year ended 31st March 2017, full impairment loss of the mining right licenses has been recognised according to HKAS 36 "Impairment of Assets" in previous financial years.

After seeking legal advice and assessing the viability of developing potential projects with the mining right licenses in light of the current challenging market and business conditions in Mongolia, the directors of the Company (the "Directors") consider no reversal of the impairment loss of the mining right licenses is appropriate in the year, because of the followings:

- there has been no change on the Mining Prohibition Law (the "MPL") which significantly restricts the Group from mining exploration activities;

- the compensation investigation of any enforcement is still in progress by the Minerals Authority of Mongolia (the "Authority") and the related departments, and accordingly, the amount and timing of any compensation cannot be determined;

- the legal and political environment of Mongolia remains uncertain; and

- there are no precedent cases of compensation being paid by the Authority in respect of expropriated areas of mining activities.

The Directors will continue to review the carrying amount of the mining rights and assess the recoverable amount by taking into account, among others, the overall market conditions for coal and any impact arising from the MPL. If the compensation amount and timing of receipt under the MPL could be accurately determined, the reversal of the impairment loss of the mining right licenses may be recognised as income immediately.

# Management Discussion and Analysis

## FINANCIAL REVIEW *(Continued)*

### Segmental Analysis *(Continued)*

**Coal Trading**

Revenue contributed by the coal trading segment for the year amounted to HK$4,744,000, representing a decrease of 58% as compared to the previous financial year. The gross profit generated by this segment decreased by HK$309,000 to approximately HK$208,000. The gross profit margin of this segment decreased slightly from 5% of the previous financial year to 4% for the year. As the business environment was difficult with keen competition, the Group will closely review the market development and seek for the best opportunities for the Group.

The Group has concentration of credit risk as the whole amount of trade receivables was due from the Group's major customers within the coal trading segment. The management has assessed and considered that the actual future cash flows are less than expected, full provision loss on trade receivables of HK$2,001,000 has been recognised as at 31st March 2018. The Group will identify new customers to minimize the risk of over reliance on the existing major customers.

### Capital Structure, Liquidity and Financial Position

As at and for the year ended 31st March 2018, the total number of issued shares of the Company remained unchanged at 9,607,753,752.

As at 31st March 2018, the Group held cash and bank balances amounting to approximately HK$5,741,000 (2017: HK$9,987,000) while the total borrowings of the Group were approximately HK$106,103,000 (2017: HK$66,191,000). As at 31st March 2018, the borrowings included amount due to a related party, other borrowings from a non-bank financial institution and independent third parties, obligations under a finance lease and unlisted bonds.

The gearing ratio, defined as the ratio of total borrowings less cash and bank balances to equity attributable to owners of the Company, was (97)% (2017: (96)%).

On 21st April 2016, the Company entered into a placing agreement for the placing of the two-year unlisted bonds at an interest rate of 7% per annum, up to an aggregate principal amount of HK$30 million. During the year ended 31st March 2017, the bonds have been fully subscribed and the net proceeds were utilised for the Group's general working capital and business development. Up to the date of approval of these consolidated financial statements, the Company has repaid HK$23,000,000.

During the year ended 31st March 2017, the Company entered into a loan agreement with an independent third party for a loan facility at an interest rate of 7% per annum, up to an aggregate principal amount of HK$45 million for a term of two years. As at 31st March 2018, the Company has utilised the whole amount of the loan facility for the Group's general working capital and business development.

During the year, the Company entered into another loan agreement with an independent third party for a loan facility at an interest rate of 7% per annum, up to an aggregate principal amount of HK$70 million for a term of two years. Up to the date of approval of these consolidated financial statements, the Company has utilised an aggregate principal amount of HK$30 million of the loan facility for the Group's general working capital and business development.

# Management Discussion and Analysis

## FINANCIAL REVIEW *(Continued)*

### Capital Structure, Liquidity and Financial Position *(Continued)*

Subsequent to the end of the reporting period, the Company has obtained advances from its controlling shareholder amounting to approximately HK$79 million, which is unsecured, interest-free and repayable on demand, for the Company's repayment of unlisted bonds and the Group's working capital and business development.

In view of the liquidity position of the Group, the Group had obtained a confirmation from its controlling shareholder confirming that it will not demand the repayment of the amount due to it by the Group of approximately HK$10 million as at 31st March 2018 and also the approximately HK$79 million subsequently advanced to the Group in the next twelve-month period from the date of approval of these consolidated financial statements. In addition to the advances from its controlling shareholder and unutilised facility from an independent third party as described above, the Directors are satisfied that, after taking into account of the present available financial resources and the facilities, the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the foreseeable future.

### Foreign Exchange Risk Management

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi, United States dollars and Hong Kong dollars. The Group is exposed to foreign currency risk arising from the monetary assets and liabilities that are denominated in currencies other than the functional currencies of the respective group entities.

The Group currently does not have a foreign currency hedging policy as the foreign currency risk is considered to be insignificant. However, the management will continue to closely monitor the Group's foreign exchange risk exposure and will consider hedging significant foreign exchange exposure when necessary.

### Charges on Assets

As at 31st March 2018, property, plant and equipment with carrying values of approximately HK$444,000 were pledged to secure the Group's borrowings from a non-bank financial institution and obligations under a finance lease.

### Contingent Liabilities

As at 31st March 2018, the Group had no significant contingent liabilities.

## SUSPENSION OF TRADING

References is made to the announcements of the Company dated 24th September 2017, 29th September 2017 and 27th March 2018, the trading in shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 3rd October 2017. On 23rd March 2018, the Company received a letter from the Stock Exchange informing that the Company was placed in the second delisting stage on 23rd March 2018 under Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange, for a period of six months which will expire on 22nd September 2018.

# Management Discussion and Analysis

## PROSPECTS AND OUTLOOK

Subsequent to the end of the reporting period, the Group has expanded its coal trading business. The Group will continue to evaluate potential coal mining and other trading business opportunities, as well as to explore opportunities for acquisition of assets and/or business with sufficient operations and/or asset value to warrant the continued listing of the shares on the Stock Exchange.

## HUMAN RESOURCES

As at 31st March 2018, the Group had a total of 27 employees. The Group believes its long-term growth depends primarily on the quality, performance and commitment of its employees. To ensure that the Group attracts and retains competent staff, remuneration packages are reviewed on a regular basis, with reference to the financial position of the Group. Discretionary bonuses and share options are also offered to qualified employees based on individual and the Group's performance. Staff costs (including Directors' remuneration) for the year ended 31st March 2018 amounted to approximately HK$14,326,000.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The principal activities of the Group are coal mining and coal trading. Nevertheless, the Group has not commenced any development or production activity on the coal mines up to the date of approval of these consolidated financial statements. Meanwhile, the coal trading operation is a business processed through third parties. Hence, the principal activities of the Group do not give rise to any material adverse influence to the environment. The Group will take appropriate measures and action as and when necessary to deal with or otherwise minimize any possible emission of hazardous materials which may arise from its business activities.

A discussion on the Group's environmental policies and performance for the year ended 31st March 2018 is provided in the section headed "Environmental, Social and Governance Report" of this annual report.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

To the best knowledge of the Directors, the Group has complied with all the relevant laws and regulations that have a significant impact on the Group in relation to its business including health and safety, workplace conditions, employment and the environment.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The board of Directors (the "Board") has always recognized the importance of shareholders' accountability and transparency and is committed to maintaining high standards of corporate governance. The Company has, throughout the year ended 31st March 2018, applied the principles and complied with the requirements of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") save and except for certain deviations as more specifically described below. The current practices will be reviewed and updated regularly so that the latest development in corporate governance can be followed and observed.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. The Company, having made specific enquiry, confirms that all Directors have fully complied with the required standard set out in the Model Code throughout the financial year ended 31st March 2018.

## BOARD OF DIRECTORS

At 31st March 2018, the Board comprised seven Directors and their respective roles are set out as follows:

### Executive Directors

Mr. Zhu Xinjiang *(Chairman)*
Mr. Cheung Siu Fai
Mr. Sun David Lee
Mr. Yeung Ting Lap, Derek Emory

### Independent Non-executive Directors

Mr. Edward John Hill III
Mr. Ho Man Kin, Tony
Mr. Li Kar Fai, Peter

During the 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 of them possessing appropriate professional qualifications or accounting or related financial management expertise. The number of Independent Non-executive Directors also represented at least one-third of the members of the Board.

The Company has received from each of the Independent Non-executive Directors (including Mr. Ho Man Kin, Tony and Mr. Li Kar Fai, Peter, who have served on the Board for more than nine years) the respective annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors are independent.

# Corporate Governance Report

## BOARD OF DIRECTORS *(Continued)*

The Board members have no financial, business, family or other material/relevant relationship with each other. Given the nature and business objective of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of current Directors and their respective biographies are set out on pages 16 and 17 of this annual report.

Pursuant to bye-law 110(A) of the bye-laws of the Company (the "Bye-laws"), at each annual general meeting of the Company, one-third of the Directors for the time being shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years. All retiring Directors shall be eligible for re-election. All Independent Non-executive Directors have been appointed for specific terms.

Pursuant to bye-law 101 of the Bye-laws, any Director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board, shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at such meeting.

While daily operation and administration are delegated to the management, the Board is responsible for the types of decisions relating to the following aspects:

- formulation of operational and strategic direction of the Group;

- monitoring the financial performance of the Group;

- overseeing the performance of the management;

- ensuring a prudent and effective framework of internal control is in place to enable risks to be assessed and managed; and

- setting the Company's values and standards.

The Board held meetings from time to time whenever necessary. Code provision A.1.1 of the CG Code requires that board meetings should be held at least four times a year at approximately quarterly intervals. During the year, the Board held three regular Board meetings. The significant matters concerning the business activities and operation of the Group had been either duly reported, discussed and resolved at the three regular Board meetings or dealt with by the Board by way of written resolutions for expeditious commercial decisions making purposes. The company secretary of the Company (the "Company Secretary") assisted the Chairman and the Executive Directors in establishing the meeting agenda, and each Director was able to request inclusion of items in the agenda. All such meetings were convened in accordance with the Bye-laws. Code provision A.1.3 of the CG Code requires that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. During the year, a regular Board meeting was convened with less than 14 days' notice in order to enable the Board members to react timely and carry out expeditious decision making in respect of matter which was significant to the Group's business. As a result, the aforesaid regular Board meeting was held with a shorter notice period than required with the consent of all the Directors. The Board will do its best endeavor to meet the requirement of code provision A.1.3 of the CG Code in the future. In addition to regular Board meetings, the Chairman of the Board held a meeting with the Independent Non-executive Directors without the presence of other Executive Directors during the year.

# Corporate Governance Report

## BOARD OF DIRECTORS *(Continued)*

Minutes of meetings of the Board, Audit Committee, Remuneration Committee and Nomination Committee are circulated to all Directors or relevant committee members for their perusal and comments and the approved minutes are kept by the Company and open for inspection by the Directors. The Board also ensures that the Directors are supplied, in a timely manner, with the agenda and all necessary information in a form and of a quality sufficient to enable them to discharge their duties. Adequate and appropriate information are circulated to the Directors normally three days in advance of the Board meetings or such period as accepted by them.

The attendance record of individual Director at Board and committee meetings as well as the annual general meeting during the year is set out in the table below.

Every Board member has full access to the advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed and he is also entitled to have full access to Board papers and related materials so that he is able to make an informed decision and to discharge his duties and responsibilities.

The Company has arranged appropriate and adequate Directors and Officers Liability Insurance to protect the Directors and officers of the Group against their potential legal liabilities.

## DIRECTORS' ATTENDANCE

During the year, details of individual Director's attendance at the Board meetings, committee meetings and the annual general meeting of the Company held on 27th September 2017 (the "AGM") are set out as follows:

| | Number of attendance/Eligible to attend | | | | |
|---|---|---|---|---|---|
| **Name of Directors** | **Board Meetings** | **Audit Committee Meetings** | **Remuneration Committee Meeting** | **Nomination Committee Meeting** | **AGM** |
| **Executive Directors** | | | | | |
| Mr. Zhu Xinjiang *(Chairman)* | 2/3 | N/A | N/A | 0/1 | 0/1 |
| Mr. Cheung Siu Fai | 2/3 | N/A | N/A | N/A | 1/1 |
| Mr. Sun David Lee | 3/3 | N/A | N/A | N/A | 1/1 |
| Mr. Yeung Ting Lap, Derek Emory | 3/3 | N/A | N/A | N/A | 0/1 |
| **Independent Non-executive Directors** | | | | | |
| Mr. Edward John Hill III | 3/3 | 3/3 | 1/1 | N/A | 0/1 |
| Mr. Ho Man Kin, Tony | 3/3 | 3/3 | 1/1 | 1/1 | 0/1 |
| Mr. Li Kar Fai, Peter | 3/3 | 3/3 | 1/1 | 1/1 | 1/1 |

Code provision E.1.2 of the CG Code requires that the chairman of the board should attend the annual general meeting. Mr. Zhu Xinjiang, the Chairman of the Board, was unable to attend the AGM due to his engagement of the Group's other pressing business.

# Corporate Governance Report

## DIRECTORS' TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has provided relevant materials published by professional bodies or regulators to the Directors to keep them abreast of the latest development of legal, regulatory and corporate governance. The Company has maintained a training record in order to assist the Directors to record the training that they have undertaken and they are requested to submit a training record to the Company on an annual basis.

During the year, all Directors have complied with code provision A.6.5 of the CG Code through attending training courses, workshops or reading materials relevant to their professional qualifications and/or duties of Directors.

## CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 of the CG Code requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The Company did not officially have a position of chief executive officer since 15th October 2013 and Mr. Zhu Xinjiang, the Chairman of the Board, provides leadership to the Board to ensure that the Board works effectively and all important issues are discussed in a timely manner. The day-to-day management of the Group's business is handled by the Executive Directors collectively. The Board believes that the present arrangement is adequate to ensure an effective management and control of the Group's business operations. The Board will continue to review the effectiveness of the Group's structure as business continues to grow and develop in order to assess whether any changes, including the appointment of a chief executive officer, are necessary.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is also responsible for performing the corporate governance duties as set out below:

(1) to develop and review the Company's policies and practices on corporate governance;

(2) to review and monitor the training and continuous professional development of Directors and senior management;

(3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(4) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and

(5) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

## BOARD COMMITTEES

The Board has set up three committees, namely Audit Committee, Remuneration Committee and Nomination Committee, to oversee different aspects of the Company's affairs. The most up-to-date terms of reference of these committees are available on the websites of the Stock Exchange and the Company.

# Corporate Governance Report

## BOARD COMMITTEES *(Continued)*

### Audit Committee

The Audit Committee is responsible for reviewing the accounting principles and practices adopted by the Group, as well as discussing and reviewing the risk management and internal control systems and financial reporting matters of the Company. The Audit Committee has reviewed the Group's annual results for the year ended 31st March 2018.

As at 31st March 2018, the Audit Committee comprised three Independent Non-executive Directors, namely Mr. Li Kar Fai, Peter (chairman), Mr. Edward John Hill III and Mr. Ho Man Kin, Tony. Mr. Li Kar Fai, Peter, the chairman of the Audit Committee, has professional qualification and in-depth experience in accounting and corporate finance. No member of the Audit Committee is a member of the former or existing auditor of the Company.

During the year, there were three meetings held by the Audit Committee to (i) receive the auditor's report on the audit planning and status in respect of the financial statements for the year ended 31st March 2017; (ii) review with the auditor the audited financial statements for the year ended 31st March 2017 and review the unaudited interim financial statements for the six months ended 30th September 2017, with recommendations to the Board for approval; (iii) review the risk management and internal control systems; (iv) review with the management of the Company the accounting principles and practices adopted by the Group; and (v) review and make recommendations to the Board on the auditor's re-appointment and remuneration. The complete attendance record of individual committee member is set out in the table on page 9 of this annual report.

### Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all Directors and senior management of the Company. No individual Director or any of his associates is involved in decisions relating to his own remuneration. The Remuneration Committee has adopted the model under code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management.

As at 31st March 2018, the Remuneration Committee comprised three Independent Non-executive Directors, namely Mr. Ho Man Kin, Tony (chairman), Mr. Edward John Hill III and Mr. Li Kar Fai, Peter.

During the year, there was a meeting held by the Remuneration Committee to review and make recommendations to the Board on the remuneration of the Directors. The complete attendance record of individual committee member is set out in the table on page 9 of this annual report.

### Nomination Committee

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board on a regular basis and making recommendations regarding any proposed changes, identifying and recommending individuals suitably qualified to become Board members, and assessing the independence of Independent Non-executive Directors. The Board adopted a board diversity policy which sets out the approach to achieve diversity on the Board with a view to achieving a sustainable and balanced development of the Company. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and length of service of the Directors.

# Corporate Governance Report

## BOARD COMMITTEES *(Continued)*

### Nomination Committee *(Continued)*

As at 31st March 2018, the Nomination Committee comprised the Chairman of the Board, namely Mr. Zhu Xinjiang (chairman) and two Independent Non-executive Directors, namely Mr. Ho Man Kin, Tony and Mr. Li Kar Fai, Peter.

During the year, there was a meeting held by the Nomination Committee to (i) review the structure, size and composition of the Board; (ii) assess the independence of Independent Non-executive Directors; and (iii) make recommendations to the Board on nominating the retiring Directors for re-election at the AGM. The complete attendance record of individual committee member is set out in the table on page 9 of this annual report.

## ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of the financial statements of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the Group's financial position on a going concern basis and other inside information announcements and financial disclosures. Management provides the Board with the relevant information it needs to discharge these responsibilities.

The responsibilities of the auditor with respect to these financial statements are set out in the "Independent Auditor's Report" on pages 31 to 37 of this annual report.

## AUDITOR'S REMUNERATION

During the year ended 31st March 2018, the fees paid/payable to the external auditor, Messrs. Deloitte Touche Tohmatsu, in respect of its audit and non-audit services provided to the Group were as follows:

| **Nature of services rendered** | **Fee paid/ payable** *HK$'000* |
|---|---|
| Audit services | 970 |
| Non-audit services | 20 |
| | 990 |

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for maintaining sound and effective risk management and internal control systems to safeguard the Group's assets and the shareholders' interests. The risk management and internal control systems are designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievements of the Group's objectives.

# Corporate Governance Report

## RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

### Main Features of Risk Management and Internal Control Systems

**Risk Management System**

The risk management system comprises risk identification, risk evaluation and risk management. The management is entrusted with duties to identify and communicate risks associated with any activity, function or process within its scope of responsibility and authority. Risks are evaluated by the Board and management based on the severity of the impact of the risks on the Company's financial results and the probability that the risks will occur.

Based on the risk evaluation, the Company manages the risk as follows:

- Risk mitigation – management will implement risk mitigation plan to reduce the likelihood and severity of the risk to an acceptable level.
- Risk retention – management will retain the risk if the risk rating is at acceptable level and no action is required.
- Risk monitoring – management will monitor the level of risk continuously and will take necessary action to reduce the risk to acceptable level.

**Internal Control System**

The Company has in place an internal control system which enables the Group to achieve objectives regarding the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The main features of the internal control system are shown as follows:

- Monitoring – Ongoing evaluations are conducted to ascertain whether the internal control system is functioning.
- Risk assessment – a risk management system is established for identifying and analyzing risks to achieve the Company's objectives, forming a basis for determining how risks are managed.
- Information and communication – internal and external communication are made to provide the Company with information needed to carry out day-to-day controls.

The Company has not established an internal audit department and the Directors are of the view that given the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professional firms to perform the internal audit function for the Group in order to meet its needs.

During the year, the Board has, through the Audit Committee, conducted review of the effectiveness of the risk management and internal control systems of the Group with the assistance of an independent internal control consultancy firm. The review covered the financial, operational and procedural compliance functions during the year. The review report with examination results and relevant improvement recommendations were duly reported to the Audit Committee and the Board for them to assess control of the Company and the effectiveness of the risk management system and any material failings or weaknesses in the internal control system, and to take appropriate actions to remedy any of these failings or weaknesses in a timely manner. All remedial actions will be regularly followed up where necessary to ensure that the failings and weaknesses have been duly addressed.

# Corporate Governance Report

## RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The Board considers that the risk management and internal control systems are effective and adequate and that the Company has complied with the code provisions relating to risk management and internal control of the CG Code.

The Company is aware of its obligation under the Securities and Futures Ordinance, the Listing Rules and the overriding principle that inside information should be announced on a timely manner and conducts its affairs in strict compliance with the applicable laws and regulations prevailing in Hong Kong. The Company has established disclosure mechanism regarding the procedures of identifying inside information and preserving its confidentiality until proper dissemination with the Board's approval through the electronic publication systems operated by the Stock Exchange and the Company.

## COMPANY SECRETARY

Mr. Chan Kwong Leung, Eric is the Company Secretary of the Company. He is delegated by an external service provider and the primary contact person in the Company during the year was Mr. Sun David Lee, an Executive Director. For the year ended 31st March 2018, Mr. Chan Kwong Leung, Eric has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

## CORPORATE COMMUNICATION WITH SHAREHOLDERS/INVESTORS

The CG Code requires the Company to have a dialogue with shareholders and the Board recognises the importance of maintaining effective communications with shareholders. Annual reports and interim reports provide shareholders with comprehensive information on the Group's operational and financial performances while general meetings offer a platform for shareholders to state and exchange views with the Board directly.

The management communicates continually with analysts and institutional investors and provides them with up-to-date and comprehensive information regarding the Group's development. The Company practices timely dissemination of information including annual reports, interim reports, announcements and press releases, which are updated in a timely manner to ensure transparency.

## SHAREHOLDERS' RIGHTS

### Procedures for convening a special general meeting

Shareholders have the right to request the Board to convene a special general meeting (the "SGM") of the Company. Shareholders holding in aggregate of not less than one-tenth of the paid up capital of the Company may send a written request to the Board to request for the SGM.

The written requisition, duly signed by the shareholders concerned, must state the purposes of the meeting and must be deposited at the Company's head office and principal place of business in Hong Kong at Unit A, 60/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong or at the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Section 74 of the Companies Act 1981 of Bermuda (the "Companies Act") once a valid requisition is received.

# Corporate Governance Report

## SHAREHOLDERS' RIGHTS *(Continued)*

### Procedures for shareholders to put forward proposals at general meetings

The following 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:

(a) any number of members representing not less than one-twentieth of the total voting rights of the Company on the date of the requisition; or

(b) not less than 100 members holding shares in the Company.

The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement of not more than 1,000 words with respect to the matter referred to in the proposal must be deposited at the Company's head office and principal place of business in Hong Kong at Unit A, 60/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong or at the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Sections 79 and 80 of the Companies Act once valid documents are received.

If a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, the shareholder should follow the "Procedures for shareholders to propose a person for election as a Director" which can be found on the website of the Company.

### Procedures for sending enquiries to the Board

Shareholders may at any time send in their enquiries and concerns to the Board in writing via the following channels:

The Board of Directors/Company Secretary
Asia Coal Limited
Unit A, 60/F
Bank of China Tower
1 Garden Road
Central
Hong Kong
Email: ir@asiacoallimited.com
Telephone: (852) 2152 0098
Facsimile: (852) 2152 0810

Shareholders may also make enquiries to the Board at general meetings of the Company.

## INVESTOR RELATIONS

There was no significant change in the Company's constitutional documents during the year ended 31st March 2018.

# Biographical Details of Directors

## EXECUTIVE DIRECTORS

### Mr. ZHU Xinjiang ("Mr. Zhu")

Mr. Zhu, aged 43, was appointed as a Non-executive Director of the Company in March 2013 and was re-designated as the Chairman and an Executive Director of the Company in May 2013. He is also a director of other members of the Group. Mr. Zhu has over 10 years of experience in the property development business and holds management positions in property development companies in Guangdong province of the PRC. He is the sole shareholder and director of Sharp Victory Holdings Limited, holding company of the Company, and a real estate developer in Guangzhou of the PRC. Mr. Zhu indirectly owns 廣州仲源房地產開發有限公司 (Guangzhou Zhongyuan Real Estate Development Limited), a real estate development company in Guangzhou of the PRC and has been its executive director and chairman since 2005. He has extensive experience in management of property development business, corporate merger and acquisition, distressed asset management, investment planning, business acquisition and development and corporate management.

### Mr. CHEUNG Siu Fai ("Mr. Cheung")

Mr. Cheung, aged 48, was appointed as an Executive Director of the Company in May 2014. He is also a director of other members of the Group. Mr. Cheung holds a Master Degree in Business Administration from The Chinese University of Hong Kong and a Bachelor Degree in Electronic Engineering from The Hong Kong Polytechnic University. He is a Certified Financial Analyst. Mr. Cheung was the Head of Asia Pacific of the Strategic Equity Solutions of Merrill Lynch (Asia Pacific) Limited ("Merrill Lynch"). Prior to his position at Merrill Lynch, Mr. Cheung was the Head of Asia Pacific of the Strategic Equity Solutions and the Managing Director of the Structured Products of Asia of Citigroup Global Markets Asia Limited. He also held key positions in various major investment banks in Asia Pacific like Calyon Corporate & Investment Bank (presently known as Crédit Agricole Corporate & Investment Bank) and JPMorgan Chase & Co..

### Mr. LENG Xiaokang ("Mr. Leng")

Mr. Leng, aged 51, was appointed as an Executive Director of the Company and the General Manager, Operation of the Group in May 2018. He is also a director of other members of the Group. Mr. Leng holds a Bachelor Degree in Economics Management from Zhongyang Minzu College* (中央民族學院) (presently known as Minzu University of China* (中央民族大學)) in Beijing, China. He is a Certified Public Accountant registered with The Chinese Institute of Certified Public Accountants and a Certified Public Valuer in China. Prior to his appointment as an Executive Director and the General Manager, Operation of the Group, Mr. Leng was the PRC Financial Controller of the Group. Before joining the Group, he was the Chairman, the General Manager and the Chief Accountant of Guangdong Huanaan Accounting Firm* (廣東華納安會計師事務所) and the Assistant General Manager of Guangzhou Province Huayi Asset Valuation Co., Ltd.* (廣州市華億資產評估有限公司). Mr. Leng has also held various accounting and auditing positions with Guangdong Huanan Accounting Firm* (廣東華南會計師事務所) under the Guangdong Provincial Foreign Economic and Trade Commission* (廣東省對外經濟貿易委員會).

* *For identification purpose only*

# Biographical Details of Directors

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Mr. Edward John HILL III ("Mr. Hill")

Mr. Hill, aged 43, was appointed as an Independent Non-executive Director of the Company in August 2012. He holds a Bachelor of Arts degree in East Asian Languages and Cultures (China Focus) and a Bachelor of Science degree in Business Administration, both in the University of Kansas. Mr. Hill has over 13 years of experience across several different areas of banking, including mergers and acquisitions advisory, equity and debt capital markets, special situations trading, leveraged finance and corporate credit. He was a director of Technology, Media and Telecom and Financial Sponsors Investment Banking, Royal Bank of Scotland in Hong Kong.

### Mr. HO Man Kin, Tony ("Mr. Ho")

Mr. Ho, aged 47, was appointed as an Independent Non-executive Director of the Company in March 2006. He holds a Bachelor Degree in Management Science from the University of St. Andrews. Mr. Ho was the Head of Special Situation Investments – Greater China, LaSalle Investment Management in Hong Kong and held key positions in various corporate advisory assignments. He has also worked as an equity investment analyst for various major investment banks in Hong Kong.

### Mr. LI Kar Fai, Peter ("Mr. Li")

Mr. Li, aged 53, was appointed as an Independent Non-executive Director of the Company in March 2006. He holds a Bachelor Degree in Accountancy from the City University of Hong Kong and is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Li has extensive experience in corporate finance and accounting. He is currently an executive director of Golden Faith Group Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Li was an independent non-executive director of Super Strong Holdings Limited from March 2016 to April 2017 and an independent non-executive director of China Hanya Group Holdings Limited from November 2010 to May 2016, the shares of these companies are listed on the Growth Enterprise Market of the Stock Exchange.

# Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31st March 2018.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the coal mining and coal trading business.

## BUSINESS REVIEW

The business review of the Group for the year ended 31st March 2018 is provided in the section headed "Management Discussion and Analysis" on pages 3 to 6 of this annual report.

## RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 38 of this annual report.

The Directors do not recommend the payment of any dividend for the year ended 31st March 2018.

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years, as extracted from the audited consolidated financial statements, is set out on page 92 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25 to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 40 of this annual report.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company had no distributable reserve at 31st March 2018 and 31st March 2017 under The Companies Act 1981 of Bermuda.

## EQUITY-LINKED AGREEMENTS

Save for the share option schemes of the Company as set out in note 27 to the consolidated financial statements, no equity-linked agreements were entered into by the Group during the year or subsisted at the end of the year.

## UNLISTED BONDS

Details of movements in the unlisted bonds of the Company during the year are set out in note 24 to the consolidated financial statements.

# Directors' Report

## MAJOR SUPPLIERS AND CUSTOMERS

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 48% and 100% respectively of the Group's total purchases for the year.

The sales to the Group's largest customer and two largest customers accounted for 64% and 100% respectively of the Group's total sales for the year.

None of the Directors, their close associates or any shareholders of the Company (which to the best knowledge of the Directors, own more than 5% of the Company's issued shares) had any interest in the Group's five largest suppliers or customers.

## RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands that employees are valuable assets. The Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its competitiveness, the Group aims at delivering quality products to its customers. During the year, there was no material and significant dispute between the Group and its suppliers and/or customers.

## DIRECTORS

The Directors during the year and up to the date of this Directors' report were:

### Executive Directors

Mr. Zhu Xinjiang *(Chairman)*
Mr. Cheung Siu Fai
Mr. Sun David Lee (resigned on 3rd May 2018)
Mr. Yeung Ting Lap, Derek Emory (resigned on 4th May 2018)
Mr. Leng Xiaokang (appointed on 15th May 2018)

### Independent Non-executive Directors

Mr. Edward John Hill III
Mr. Ho Man Kin, Tony
Mr. Li Kar Fai, Peter

In accordance with bye-law 110(A) of the Bye-laws, Mr. Zhu Xinjiang and Mr. Edward John Hill III shall retire as Directors by rotation at the forthcoming annual general meeting and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-law 101 of the Bye-laws, Mr. Leng Xiaokang shall retire as Director at the forthcoming annual general meeting and, being eligible, has offered himself for re-election at the forthcoming annual general meeting.

# Directors' Report

## DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

On 1st April 2018, the Company and Mr. Zhu Xinjiang entered into a supplemental service agreement to amend his service agreement. Pursuant to the supplemental service agreement, Mr. Zhu's monthly remuneration has been reduced to HK$15,000 at his request. The reduction in Mr. Zhu's remuneration has been reviewed by the Remuneration Committee and approved by the Board.

On 1st April 2018, the Company and Mr. Cheung Siu Fai entered into a supplemental service agreement to amend his service agreement. Pursuant to the supplemental service agreement, Mr. Cheung's monthly remuneration has been reduced to HK$15,000 at his request. The reduction in Mr. Cheung's remuneration has been reviewed by the Remuneration Committee and approved by the Board.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st March 2018, the interests of the Directors and chief executives and their associates of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) 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 as set out in Appendix 10 to the Listing Rules, were as follows:

### Long positions in ordinary shares of the Company

| | Number of shares/underlying shares held | | | % of the total number of issued shares of the Company |
|---|---|---|---|---|
| **Name of Directors** | **Personal interests** | **Corporate interests** | **Total** | |
| Zhu Xinjiang | – | 6,006,850,314 *(Note 1)* | 6,006,850,314 | 62.52 |
| Sun David Lee | 9,000,000 *(Note 2)* | – | 9,000,000 | 0.09 |
| Yeung Ting Lap, Derek Emory | 7,000,000 *(Note 3)* | – | 7,000,000 | 0.07 |
| Ho Man Kin, Tony | 2,000,000 *(Note 4)* | – | 2,000,000 | 0.02 |
| Li Kar Fai, Peter | 2,000,000 *(Note 5)* | – | 2,000,000 | 0.02 |

# Directors' Report

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

### Long positions in ordinary shares of the Company *(Continued)*

*Notes:*

1. These 6,006,850,314 shares are held by Sharp Victory Holdings Limited which is wholly-owned by Mr. Zhu Xinjiang.

2. The personal interests of Mr. Sun David Lee represent an interest in the underlying shares in respect of 9,000,000 share options granted by the Company entitling him to subscribe for 9,000,000 shares of the Company.

3. The personal interests of Mr. Yeung Ting Lap, Derek Emory represent an interest in the underlying shares in respect of 7,000,000 share options granted by the Company entitling him to subscribe for 7,000,000 shares of the Company.

4. The personal interests of Mr. Ho Man Kin, Tony represent an interest in the underlying shares in respect of 2,000,000 share options granted by the Company entitling him to subscribe for 2,000,000 shares of the Company.

5. The personal interests of Mr. Li Kar Fai, Peter represent an interest in the underlying shares in respect of 2,000,000 share options granted by the Company entitling him to subscribe for 2,000,000 shares of the Company.

Save as disclosed above, none of the Directors nor chief executives and their associates of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31st March 2018, 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.

## SHARE OPTION SCHEMES

Particulars of the Company's share option schemes are set out in note 27 to the consolidated financial statements.

### 2007 Scheme

A share option scheme (the "2007 Scheme") was adopted by the Company pursuant to a resolution passed on 28th September 2007. Under the 2007 Scheme, the Directors may invite any Director (including Non-executive Director and Independent Non-executive Director), employee of the Company or any of its subsidiaries or associated companies or any suppliers of goods or services to the Group to take up options to subscribe for shares of HK$0.10 each (which was adjusted to HK$0.01 per share following the capital reorganisation of the Company's shares on 5th March 2013) in the capital of the Company.

Upon acceptance of the option, a nominal consideration of HK$1.00 will be paid by each grantee for each lot of share option granted within 21 days from the date of offer of the option. The options are exercisable within ten years after the date of grant.

The 2007 Scheme was terminated when the 2016 Scheme (as defined below) came into effect on 28th September 2016. Upon the termination of the 2007 Scheme, no further options would be granted, but the options granted prior to such termination continue to be valid and exercisable in accordance with the provisions of the 2007 Scheme.

# Directors' Report

## SHARE OPTION SCHEMES *(Continued)*

### 2016 Scheme

A share option scheme (the "2016 Scheme") was adopted by the Company pursuant to a resolution passed on 28th September 2016.

A summary of the principal terms of the 2016 Scheme is given below:

| | | | |
|---|---|---|---|
| (I) | Purpose of the scheme | : | The purpose of the 2016 Scheme is to encourage the participants to perform their best in achieving the goals of the Group and at the same time allow the participants to enjoy the results of the Company attained through their efforts and contributions and to provide the participants with incentives and help the Group in retaining its existing employees and recruiting additional employees. |
| (II) | Participants of the scheme | : | The Directors may invite any Director (including Non-executive Director and Independent Non-executive Director) and employee of the Company and any of its subsidiaries, or any supplier or provider of goods and/or services to the Group, or any other person who, at the sole discretion of the Directors, has contributed or may contribute to the Group to take up options to subscribe for shares of HK$0.01 each in the capital of the Company. |
| (III) | Total number of shares available for issue under the scheme and percentage of the issued shares as at the date of this annual report | : | The number of shares available for issue under the 2016 Scheme was 960,775,375 shares representing approximately 10% of the total number of issued shares of the Company as at the date of this annual report. |
| (IV) | Maximum entitlement of each participant under the scheme | : | The maximum number of shares issued and which may fall to be issued upon exercise of the options granted and to be granted under the 2016 Scheme to each participant in any 12-month period up to the date of grant must not exceed 1% of the shares in issue unless it is approved by shareholders (other than the grantees and/or their respective close associates) in a general meeting of the Company. Any share options granted to a substantial shareholder or an Independent Non-executive Director or to any of their respective close associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in general meeting of the Company. |

# Directors' Report

## SHARE OPTION SCHEMES *(Continued)*

### 2016 Scheme *(Continued)*

| | | | |
|---|---|---|---|
| (V) | The period within which the shares must be taken up under an option | : | The period within which the options must be exercised will be specified by the Company at the time of grant. This period shall not be more than 10 years from the relevant date of grant. |
| (VI) | The minimum period for which an option must be held before it can be exercised | : | The Company may specify any minimum period(s) for which an option must be held before it can be exercised at the time of grant of the options. The 2016 Scheme does not contain any such minimum period. |
| (VII) | The amount payable upon acceptance of option | : | Upon acceptance of the option, a nominal consideration of HK$1.00 will be paid by each grantee for each lot of share option granted within 21 days from the date of offer of the option. |
| (VIII) | The basis of determining the exercise price | : | The exercise price must not be less than the higher of:<br>(i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a trading day;<br>(ii) the average closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and<br>(iii) the nominal value of a share. |
| (IX) | The remaining life of the scheme | : | The 2016 Scheme has a period of 10 years commencing from 28th September 2016. |

No share option has been granted under the 2016 Scheme since its adoption.

# Directors' Report

## SHARE OPTION SCHEMES *(Continued)*

The movements in the share options granted under the 2007 Scheme during the year are as follows:

| Grantee | Option Scheme Type | Date of Grant | Exercisable Period | Exercise price per share HK$ | Number of share options: Balance at 01/04/2017 | Granted during the year | Exercised during the year | Lapsed during the year | Balance at 31/03/2018 |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| Sun David Lee | 2007 | 29/07/2010 | 29/07/2010 to 28/07/2020 | 0.20 | 9,000,000 | – | – | – | 9,000,000 |
| Yeung Ting Lap, Derek Emory | 2007 | 29/07/2010 | 29/07/2010 to 28/07/2020 | 0.20 | 7,000,000 | – | – | – | 7,000,000 |
| Ho Man Kin, Tony | 2007 | 29/07/2010 | 29/07/2010 to 28/07/2020 | 0.20 | 2,000,000 | – | – | – | 2,000,000 |
| Li Kar Fai, Peter | 2007 | 29/07/2010 | 29/07/2010 to 28/07/2020 | 0.20 | 2,000,000 | – | – | – | 2,000,000 |
| Sub-total: | | | | | 20,000,000 | – | – | – | 20,000,000 |
| **Employees** | 2007 | 03/03/2009 | 03/03/2009 to 02/03/2019 | 0.27 | 2,000,000 | – | – | – | 2,000,000 |
| **Consultants** | 2007 | 22/11/2007 | 22/11/2007 to 21/11/2017 | 0.27 | 18,060,000 | – | – | (18,060,000) | – |
| Sub-total: | | | | | 20,060,000 | – | – | (18,060,000) | 2,000,000 |
| Total: | | | | | 40,060,000 | – | – | (18,060,000) | 22,000,000 |

Save as disclosed above, no other share options were outstanding, granted, exercised, cancelled or lapsed under the 2007 Scheme and the 2016 Scheme at any time during the year.

Save as disclosed above, none of the Directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

# Directors' Report

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the 2007 Scheme and the 2016 Scheme disclosed in the section headed "Share Option Schemes" above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DISCLOSABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS UNDER THE SFO

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31st March 2018, the following corporation, other than a Director or chief executive of the Company, had the following interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

| Name of shareholder | Capacity | Long/Short position | Number of shares held | % of the total number of issued shares of the Company |
|---|---|---|---|---|
| Sharp Victory Holdings Limited *(Note)* | Beneficial owner | Long position | 6,006,850,314 | 62.52 |

*Note:* Sharp Victory Holdings Limited is wholly-owned by Mr. Zhu Xinjiang, the Chairman and an Executive Director of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st March 2018.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year and up to the date of this annual report, no Directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules, other than those businesses of which the Directors were appointed as directors to represent the interests of the Company.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

## PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (to the fullest extent permitted by the Companies Ordinance (Cap. 622)) which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate insurance coverage in respect of the directors' and officers' liabilities for the Directors.

# Directors' Report

## INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors (including Mr. Ho Man Kin, Tony and Mr. Li Kar Fai, Peter, who have served on the Board for more than nine years) an annual confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

## EMOLUMENT POLICY

The emoluments of the Directors and senior management are recommended by the Remuneration Committee and approved by the Board, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted share option schemes as an incentive to Directors and eligible employees. Details of the schemes are set out in note 27 to the consolidated financial statements.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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

At no time during the year did the Company nor any of its subsidiaries purchase, sell or redeem any of the Company's listed securities.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules as at the date of this annual report.

## 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.

## AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Zhu Xinjiang**
*Chairman*

Hong Kong, 29th June 2018

# Environmental, Social and Governance Report

In accordance with the requirements set out in Appendix 27 — Environmental, Social and Governance Reporting Guide (the "ESG Guide") to the Listing Rules, the Group hereby presents the Environmental, Social and Governance report covering the Group's principle business and operations for the year ended 31st March 2017.

The Group is committed to the long-term sustainability of its business and the local communities where we operate. The Group also recognises the importance of the views and interests of its stakeholders such as shareholders, regulators, employees and the public in making business decisions. The Group aims at making constant efforts in areas such as environmental protection and general social welfare.

## A. ENVIRONMENTAL

The Group supports environmental protection programs and is constantly looking to reduce the impact of business activities on the environment.

### A1: Emissions

As regards the coal mining business operation in Mongolia, the Group has not carried out any development nor production activity during the reporting year. As such, the emissions during the mining process are not applicable during the reporting year.

The types of emissions generated from the coal trading business operations are principally emitted from third party transportation providers involved in the logistics arrangement of coal products and personnel. The emissions data of which during the year are unavailable to the Group. The Group believes there is no significant environmental impact generated by its business operations.

During the reporting year, the measurable majority of carbon dioxide (CO2) were emitted from fuel consumption of electricity and the Group's vehicles. It is estimated that 4,500 litres of petrol and 10,700 kWh of electricity was consumed for Hong Kong office.

### A2: Use of Resources

The Group is committed to promoting environmental protection, hoping to improve resources utilisation and advocating commercial acts accountability to the environment so as to minimise possible risks of impact on the environment arising from business development.

The Group also encourages employees to save energy and improve efficient utilisation of resources through the use of energy-saving lightings and recycled papers, minimising the use of papers, reducing energy consumption by switching off idle lightings, computers and electrical appliances.

As the water used by the Group is managed by the property management office of the office building where the Group is located, there is no relevant data on water consumption. However, the Group believed that the water consumed is of insignificant amount.

### A3: The Environment and Natural Resources

The Group constantly assesses and monitors the environmental risks in its daily operation, and formulates corresponding mitigation measures promptly when discovering any potential risk to the environment, so as to ensure such risk can be controlled and reduced to an acceptable level.

# Environmental, Social and Governance Report

## B. SOCIAL

### Employment and Labour Practices

### B1: Employment

Employees are regarded as the greatest and valuable assets and core competitive advantage of the Group. The Group values talent development and team construction and strives to introduce talents through multi-channels. The Group identifies and absorbs talents, and will not treat them differently because of gender, age, race, religion, or disability, so as to give equal opportunities to everybody.

In order to provide a good and fair working environment and safeguard the well-being of the employees, the Group seriously considers all those valuable opinions from the employees for enhancing workplace productivity and harmony.

The Group offers competitive remuneration, promotional opportunity, compensation and benefit packages to attract and retain talents. Remuneration packages are reviewed periodically based on the Group's operating results, individual performance and market information. The Group aims to reward and motivate the contribution and performance of employees and assist them in their career development and promotion within the Group.

The Group strictly complies with applicable laws and regulations in the localities of its operation, and the relevant administrative rules and measures are strictly enforced. These rules and regulations specify the requirements relating to employment, labour relations, employees' remuneration, social insurances, housing fund, mandatory provident fund and welfare to protect the rights of employees.

### B2: Health and Safety

The Group strives to provide a safe and satisfactory workplace for all employees. The Group also encourages employees to take part in work-life balance activities and community service.

To safeguard employees' occupational health and safety, the Group provides a safe, healthy and comfortable working environment and has strictly complied with regulations on occupational health and safety in the localities of its operation. Employees are requested to stringently abide by all safety rules and regulations, and utilize available and applicable protection measures at all times to avoid accidents and protect themselves and co-workers from safety risks in accordance with the relevant laws and regulations. The Company offers its employees comprehensive health care coverage.

During the reporting year, there was no breach of relevant laws and regulations relating to employees' health and safety.

# Environmental, Social and Governance Report

## B. SOCIAL *(Continued)*

### Employment and Labour Practices *(Continued)*

#### B3: Development and Training

The Group recognizes the importance of the personal development and professional growth of its employees. We sponsor and provide time-off for employees who take external training programs relevant to their duties and responsibilities. The Group also encourages employees to identify their own personal objectives for development, allowing them to grow together with the Group. Experienced employees will act as mentors to guide the new comers on jobs. Such arrangements not only enhance the communication and team spirit, but also improve their technical skills and managerial capability and encourage the learning and further development of the employees at all levels. The Group also updates employees on the latest information of the industry and laws and regulations which are essential to the Group's operations and their job responsibilities from time to time.

#### B4: Labour Standards

The Group is committed to protecting human rights and complying with all relevant labour regulations and laws as stipulated by local authorities. We have no tolerance for the use of forced labour or child labour in our business operations. The Group enters into employment contract with each of its employees in accordance with the relevant laws and regulations in the localities of its operation.

### Operating Practices

#### B5: Supply Chain Management

To ensure the Group's product quality, we select and build up close relationship with quality suppliers. The Group will carry out continuous quality monitoring on all suppliers.

#### B6: Product Responsibility

In carrying out its coal trading operation, the Group complies with various PRC regulations relating to its products and services.

During the reporting year, no reports or customer complaints of violations of relevant service responsibility, laws and regulations were received.

The Group is responsible for protecting the privacy of customers and devotes all our efforts to prevent the leakage of customer information. Except for the public documents as specified in laws and regulations, the Group strictly follows the relevant privacy ordinance and never allows information disclosure without the approval of data owners.

Employees are obligated to retain in confidence all information obtained in connection with their employment, including but not limited to, trade secrets, know-how, client information, supplier information and other proprietary information.

The Group did not note any cases of material non-compliance in relation to data privacy during the reporting year.

# Environmental, Social and Governance Report

## B. SOCIAL *(Continued)*

### Operating Practices *(Continued)*

### B7: Anti-corruption

All of the Group's operations comply with local and national legislation on standards of conduct, such as with the Prevention of Bribery Ordinance in Hong Kong and relevant legislation on anti-corruption and bribery in the PRC. The Group requires employees to strictly conform to the code of business ethics.

During the reporting year, the Group was not involved in any litigation regarding corruption, bribery, fraud or money-laundering.

### Community

### B8: Community Investment

The Group is committed to being a responsible member of the community and aims to make a positive impact on the local community. The Group encourages employees to participate in various voluntary events, creating a strong social network and providing assistance and supports for the people in need, which could provide an opportunity for them to establish connections outside the workplace, and inspire team building experiences while contributing to the local communities.

# Independent Auditor's Report

Deloitte. 德勤

**TO THE MEMBERS OF ASIA COAL LIMITED**
**亞洲煤業有限公司**
*(incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Asia Coal Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 91, which comprise the consolidated statement of financial position as at 31st March 2018, and the 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 31st 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 Consolidated Financial Statements section of our report. We are independent of the Group 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 2 to the consolidated financial statements which explains that the Group incurred a loss attributable to owners of the Company of approximately HK$36,895,000 for the year ended 31st March 2018 and that as at 31st March 2018, the Group had net liabilities of approximately HK$103,256,000 and net current liabilities of approximately HK$82,390,000. The Group's ability to continue as a going concern is dependent on the ongoing availability of financing to the Group, including loans from Sharp Victory Holdings Limited, which is the immediate holding company and ultimate holding company of the Company, and the unutilised loan facility from an independent third party. If the financing were 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.

# Independent Auditor's Report

## 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.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment of trade receivables*** | |
| We identified the impairment of trade receivables as a key audit matter due to the concentration of credit risk as a result of the fact that the trade receivables are solely in respect of the Group's customers within the coal trading segment, and the estimation associated with the determination of impairment of trade receivables.<br><br>In determining the allowance for trade receivables, the management considers the estimation of the future discount cash flow with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables.<br><br>Based on the management's estimation of the impairment of trade receivables as disclosed in note 5 to the consolidated financial statements, full impairment loss of HK$2,001,000 was recognised during the year ended 31st March 2018. | Our procedures in relation to the impairment of trade receivables included:<br><br>• Obtaining an understanding of how the allowance for doubtful debts is estimated by the management;<br><br>• Discussing with the management in respect of the recoverability of trade receivables with reference to the credit history including default or delay in payments, settlement records, subsequent settlement of the trade receivables and aging analysis of the trade receivables; and<br><br>• Evaluating the management's assessment on the impairment of trade receivables by examining the aging analysis and subsequent settlement of the trade receivables, on a sample basis, to the invoices and delivery notes. |

# Independent Auditor's Report

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Reversal of the impairment loss recognised in prior year in respect of exploration and evaluation assets*** | |
| We identified the potential for the reversal of the impairment loss recognised in prior year in respect of exploration and evaluation assets as a key audit matter due to the significant management judgement involved in determining whether the conditions set out in HKAS 36 "Impairment of Assets" have been met in order to reverse these impairment losses.<br><br>The exploration and evaluation assets of the Group represented the considerations paid for acquisition of mineral mining licenses and exploration licenses in respect of the Saikhan Ovoo coal deposits in the Bulgan province of Mongolia in previous years and the costs incurred for subsequent exploration and evaluation works. As disclosed in note 16 to the consolidated financial statements, full impairment loss of HK$382,446,000 has been recognised during the year ended 31st March 2014. | Our procedures in relation to the valuation of exploration and evaluation assets include:<br><br>• Obtaining an understanding of how the valuation of exploration and evaluation assets is estimated by the management;<br><br>• Obtaining legal advice from an external legal counsel in Mongolia to understand the latest status of the effects from the MPL or other applicable laws and regulations on the exploration and evaluation assets of the Group; and<br><br>• Evaluating the management's assessment of the impact of the MPL on the valuation of the exploration and evaluation assets of the Group, and their conclusions in respect of the potential reversal of impairment losses. |

# Independent Auditor's Report

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|

***Reversal of the impairment loss recognised in prior year in respect of exploration and evaluation assets (Continued)***

The management performed a review to assess whether it is appropriate to reverse the impairment loss with reference to the legal advice obtained from an external legal counsel. It is concluded that no reversal of the impairment on the exploration and evaluation assets previously impaired because of the following:

- There has been no change on the Mining Prohibition Law (the "MPL") which significantly restricts the Group from mining exploration activities;

- The compensation investigation of any enforcement is still in progress by the Minerals Authority of Mongolia (the "Authority") and the related departments, and accordingly the amount and timing of any compensation cannot be determined;

- The legal and political environment of Mongolia remains uncertain; and

- There are no precedent cases of compensation being paid by the Authority in respect of expropriated area of mining activities.

# Independent Auditor's Report

## 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 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 issued by the HKICPA 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.

# Independent Auditor's Report

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

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.

- 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.

# Independent Auditor's Report

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

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 Ip Chiu Yin.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

29th June 2018

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st March 2018

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Revenue | 6 & 7 | **4,744** | 11,219 |
| Cost of sales | | **(4,536)** | (10,702) |
| Gross profit | | **208** | 517 |
| Other income | 8 | **147** | 6 |
| Other gains and losses | 8 | **5,597** | – |
| Selling and distribution expenses | | **(25)** | (28) |
| Administrative expenses | | **(29,913)** | (52,211) |
| Finance costs | 9 | **(12,909)** | (5,198) |
| Loss before tax | | **(36,895)** | (56,914) |
| Taxation | 10 | **–** | – |
| Loss for the year attributable to owners of the Company | 11 | **(36,895)** | (56,914) |
| **Other comprehensive (expense) income** | | | |
| *Item that will not be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation to presentation currency | | **(7,581)** | 2,897 |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **(280)** | (806) |
| Other comprehensive (expense) income for the year | | **(7,861)** | 2,091 |
| Total comprehensive expense for the year attributable to owners of the Company | | **(44,756)** | (54,823) |
| **LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY** | 14 | | |
| Basic and diluted (HK cents) | | **(0.38)** | (0.59) |

# Consolidated Statement of Financial Position

At 31st March 2018

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 15 | **825** | 2,720 |
| Exploration and evaluation assets | 16 | **–** | – |
| | | **825** | 2,720 |
| Current assets | | | |
| Trade and other receivables | 17 | **2,934** | 7,148 |
| Bank balances and cash | 18 | **5,741** | 9,987 |
| | | **8,675** | 17,135 |
| Current liabilities | | | |
| Trade and other payables and accrued charges | 19 | **6,653** | 12,164 |
| Amount due to a related party | 20 | **9,951** | 9,718 |
| Other borrowings | 22 | **44,868** | 2,691 |
| Obligations under a finance lease | 23 | **126** | 146 |
| Unlisted bonds | 24 | **29,467** | – |
| | | **91,065** | 24,719 |
| Net current liabilities | | **(82,390)** | (7,584) |
| Total assets less current liabilities | | **(81,565)** | (4,864) |
| Non-current liabilities | | | |
| Other borrowings | 22 | **21,691** | 26,503 |
| Obligations under a finance lease | 23 | **–** | 126 |
| Unlisted bonds | 24 | **–** | 27,007 |
| | | **21,691** | 53,636 |
| Net liabilities | | **(103,256)** | (58,500) |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 25 | **96,078** | 96,078 |
| Reserves | | **(199,334)** | (154,578) |
| Total equity | | **(103,256)** | (58,500) |

The consolidated financial statements on pages 38 to 91 were approved and authorised for issue by the Board of Directors on 29th June 2018 and are signed on its behalf by:

**Zhu Xinjiang**
*DIRECTOR*

**Cheung Siu Fai**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31st March 2018

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Share options reserve** | **Capital contribution reserve** | **Translation reserve** | **Accumulated losses** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 (*Note*) | HK$'000 | HK$'000 | HK$'000 |
| At 1st April 2016 | 96,078 | 548,246 | 3,025 | 57,979 | 3,996 | (713,001) | (3,677) |
| Loss for the year | – | – | – | – | – | (56,914) | (56,914) |
| Exchange differences arising on translation | – | – | – | – | 2,091 | – | 2,091 |
| Total comprehensive income (expense) for the year | – | – | – | – | 2,091 | (56,914) | (54,823) |
| Subtotal | 96,078 | 548,246 | 3,025 | 57,979 | 6,087 | (769,915) | (58,500) |
| Lapse of share options | – | – | (285) | – | – | 285 | – |
| At 31st March 2017 | 96,078 | 548,246 | 2,740 | 57,979 | 6,087 | (769,630) | (58,500) |
| Loss for the year | – | – | – | – | – | (36,895) | (36,895) |
| Exchange differences arising on translation | – | – | – | – | (7,861) | – | (7,861) |
| Total comprehensive expense for the year | – | – | – | – | (7,861) | (36,895) | (44,756) |
| Subtotal | 96,078 | 548,246 | 2,740 | 57,979 | (1,774) | (806,525) | (103,256) |
| Lapse of share options | – | – | (1,357) | – | – | 1,357 | – |
| At 31st March 2018 | 96,078 | 548,246 | 1,383 | 57,979 | (1,774) | (805,168) | (103,256) |

*Note:* The capital contribution reserve represented the credits arising from waiver of debts owing by the Group to its shareholders.

# Consolidated Statement of Cash Flows

For the year ended 31st March 2018

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loss before tax | **(36,895)** | (56,914) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **1,899** | 1,913 |
| Exchange (gain) loss | **(7,503)** | 1,628 |
| Finance costs | **12,909** | 5,198 |
| Impairment loss recognised in respect of trade receivables | **1,906** | – |
| Gain on disposal of property, plant and equipment | **(6)** | – |
| Interest income | **(6)** | (6) |
| Operating cash flows before movements in working capital | **(27,696)** | (48,181) |
| Decrease in trade and other receivables | **2,213** | 2,961 |
| Decrease in trade and other payables and accrued charges | **(6,895)** | (137) |
| Cash used in operations | **(32,378)** | (45,357) |
| Interest income received | **6** | 6 |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(32,372)** | (45,351) |
| **INVESTING ACTIVITIES** | | |
| Proceeds on disposal of property, plant and equipment | **6** | – |
| Purchase of property, plant and equipment | **–** | (39) |
| **CASH FROM (USED IN) INVESTING ACTIVITIES** | **6** | (39) |

# Consolidated Statement of Cash Flows

For the year ended 31st March 2018

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **FINANCING ACTIVITIES** | | |
| New other borrowing obtained from an independent third party | **40,000** | 30,000 |
| Advance from related parties | **233** | 311 |
| Transaction cost paid for the new other borrowing obtained | **(6,400)** | (4,800) |
| Finance costs paid | **(4,833)** | (1,463) |
| Repayment of borrowings from a non-bank financial institution | **(1,067)** | (990) |
| Repayment of obligations under a finance lease | **(146)** | (139) |
| Proceeds from issue of unlisted bonds | **–** | 30,000 |
| Transaction cost paid for the issue of unlisted bonds | **–** | (4,800) |
| **NET CASH FROM FINANCING ACTIVITIES** | **27,787** | 48,119 |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | **(4,579)** | 2,729 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | **9,987** | 7,367 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | **333** | (109) |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** represented by bank balances and cash | **5,741** | 9,987 |

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 1. GENERAL

Asia Coal Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability under The Companies Act 1981 of Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate holding company and ultimate holding company of the Company is Sharp Victory Holdings Limited ("Sharp Victory"), a company incorporated in the British Virgin Islands which is controlled by Mr. Zhu Xinjiang ("Mr. Zhu"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information Section.

On 22nd September 2017, the Company received a letter from the Stock Exchange informing the Company that the Company has failed to maintain a sufficient level of operations or assets under Rule 13.24 of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") to warrant the continued listing of its shares. The Stock Exchange has therefore decided to place the Company in the first delisting stage under Practice Note 17 of the Listing Rules, for a period of six months which expired on 21st March 2018.

On 23rd March 2018, the Company further received a letter from the Stock Exchange informing the Company that it was placed in the second delisting stage on 23rd March 2018 under Practice Note 17 of the Listing Rules, for a period of six months which will expire on 22nd September 2018.

Trading of the Company's shares on the Stock Exchange has been suspended since 3rd October 2017.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 32.

The functional currency of the Company is Renminbi ("RMB") and the presentation currency of the Company and its subsidiaries (collectively referred to as the "Group") is Hong Kong dollars ("HK$"). HK$ has been selected as the presentation currency because the shares of the Company are listed on the Stock Exchange.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by HK$82,390,000 as at 31st March 2018, the Group's total liabilities exceeded its total assets by HK$103,256,000 as of that date, and that the Group incurred a loss of HK$36,895,000 for the year then ended.

In order to improve the Group's financial position, to provide liquidity and cash flows and to sustain the Group as a going concern, the Group has been implementing a number of measures, including but not limited to:

(i) Subsequent to 31st March 2018, Sharp Victory has agreed to provide continuous financial support to the Group as necessary to enable the Group to meet its financial obligations, as and when they fall due for the foreseeable future. In May and June 2018, Sharp Victory has provided various advances to the Group amounting to approximately HK$79 million to enable the Group to meet its financial obligations. Sharp Victory has agreed not to demand repayment of the amount due to it by the Group of approximately HK$9,951,000 as at 31st March 2018 and also the approximately HK$79 million subsequently advanced to the Group in the next twelve months from the date of approval for issue of these consolidated financial statements subsequent to the end of the reporting period.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(ii) As disclosed in note 22, the Group had unutilised loan facility of HK$45,000,000 from an independent third party as at 31st March 2018. In May 2018, the Group had drawdown HK$5,000,000 and the Group had unutilised loan facility of HK$40,000,000 as at the date of approval for issue of these consolidated financial statements.

The directors of the Company are of the opinion that, taking into account the above financial support by Sharp Victory and unutilised loan facility from an independent third party as described above, the Group will have sufficient working capital to meet its cashflow requirements in the next twelve months. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 | 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.

### Amendments to HKAS 7 *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 flow 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 exchanges rates; (iv) changes in fair values; and (v) other changes.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### Amendments to HKAS 7 *Disclosure Initiative* *(Continued)*

A reconciliation between the opening and closing balances of these items is provided in note 26. 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 26, the application of these amendments has had no impact on the Group's consolidated financial statements.

### New and revised HKFRSs and interpretations issued but not yet effective

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

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

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

Except as described below, the directors of the Company anticipate that the application of other new and revised HKFRSs and interpretations issued but not yet effective will have no material impact on the consolidated financial statements in the foreseeable future.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 3. APPLICATION OF NEW AND REVISED 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. All other financial assets are measured at their fair value at 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; and

- 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: Reconciliation 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 31st March 2018, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

*Classification and measurement:*

- Trade receivables and bank balances carried at amortised cost as disclosed in notes 17 and 18 respectively: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### HKFRS 9 *Financial Instruments (Continued)*

*Impairment*

In general, the directors of the Company 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 are subject to the impairment provisions upon application of HKFRS 9 by the Group. However, the directors of the Company do not anticipate that the application of the expected credit loss model of HKFRS 9 will have material impact on the opening accumulated losses balance at 1st April 2018.

Based on the assessment by the directors of the Company, the directors of the Company do not anticipate that the application of HKFRS 9 in the future will have other material impact in the Group's future financial position and performance.

### HKFRS 15 *Revenue from Contracts with Customer*

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 goods and services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with 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 of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a significant impact on the timing and amounts of revenue recognised in the future.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 3. APPLICATION OF NEW AND REVISED 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 lease 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 modifications, amongst others. For the classification of cash flows, the Group currently presents 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 and a related finance lease liability for finance lease arrangement 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 31st March, 2018, the Group has non-cancellable operating lease commitments of HK$4,187,000 as disclosed in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### HKFRS 16 *Leases (Continued)*

In addition, the Group currently considers refundable rental deposits paid of HK$2,118,300 as rights and obligations 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.

## 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 Listing Rules and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis 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 for 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 "*Leases*", 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*".

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

**4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

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.

The significant 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 Group. 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 and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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

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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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 profit or loss.

### Impairment on tangible assets (other than exploration and evaluation assets)

At the end of the reporting period, the Group reviews the carrying amount of its tangible assets 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 assets 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 individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment on tangible assets (other than exploration and evaluation assets) *(Continued)*

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.

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 first to reduce the carrying amount of any goodwill (if applicable) and then to the other 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 profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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.

### 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 expenditure incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial liability 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 either other intangible assets or property, plant and equipment, and the assets are assessed for impairment before reclassification.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment in accordance with HKAS 36 "*Impairment of Assets*" 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 entity 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 entity has decided to discontinue such activities in the specific area.
- 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 profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the 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 the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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.

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

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by 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 bases 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 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, 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 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 each 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 rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation *(Continued)*

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 are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### 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**

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as obligations under finance leases.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy above).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### Retirement benefit costs

Payments to defined contribution retirement benefit plans, the Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement benefit schemes, are recognised as an expense when employees have rendered services entitling them to the contributions.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

**Financial assets**

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, 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.

*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 other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of loans and receivables below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### Financial assets *(Continued)*

*Impairment of loans and receivables*

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a 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 trade receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, 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 profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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 was recognised, the previously recognised impairment loss is reversed through 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial liabilities and equity instruments**

Financial liabilities 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 an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities including trade and other payables, amount due to a related party, other borrowings and unlisted bonds are subsequently measured at amortised cost, using the effective interest method.

*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.

**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.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Share-based payment arrangements

**Equity-settled share-based payment transactions**

*Share options granted to employees or consultants*

Equity-settled share-based payments to employees and consultants 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 share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When 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.

Share options issued to consultants in exchange for services are measured at the fair values of the services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the counterparty renders the service. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

The following are the 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.

### Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st March 2018, the carrying amount of trade receivables (before allowance for doubtful debts) is HK$2,001,000 (2017: HK$3,780,000). Full impairment loss on trade receivables of HK$2,001,000 has been recognised as at 31st March 2018 (2017: nil).

### Exploration and evaluation assets

As disclosed in note 16, full impairment loss on exploration and evaluation assets was recognised during the year ended 31st March 2014.

In the opinion of the directors of the Company, no reversal of impairment loss of the mining right licenses is appropriate in the current year because of the following:

- There has been no change on the Mining Prohibition Law (the "MPL") which significantly restricts the Group from mining exploration activities;
- The compensation investigation of any enforcement is still in progress by the Minerals Authority of Mongolia (the "Authority"), and the related departments, and accordingly the amount and timing of any compensation cannot be determined;
- The legal and political environment of Mongolia remains uncertain; and
- There are no precedent cases of compensation being paid by the Authority in respect of expropriated area of mining activities.

The directors of the Company will continue to review the carrying amount of the mining rights and assess the recoverable amount by taking into account, among others, the overall market conditions for coal and any impact arising from the MPL. If the compensation amount and timing of receipt under the MPL can be accurately determined, the reversal of the impairment of mining right licenses may be recognised as income immediately.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 6. REVENUE

Revenue represents the amounts received or receivable from trading of coal, net of discounts, to outside customers during the year.

## 7. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker, the Chairman of the Group, for the purposes of resource allocation and performance assessment. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segment. The reports are analysed based on categories of business. Two operating segments were presented:

1) Coal mining
2) Trading of coal purchased from third parties ("Coal trading")

### Segment revenue and results

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

| | Coal mining | | Coal trading | | Total | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Revenue | | | | | | |
| External sales | **–** | – | **4,744** | 11,219 | **4,744** | 11,219 |
| Segment loss | **(584)** | (505) | **(3,152)** | (905) | **(3,736)** | (1,410) |
| Unallocated income | | | | | | |
| – Interest income | | | | | **6** | 6 |
| – Other income | | | | | **141** | – |
| – Other gains and losses | | | | | **7,503** | – |
| Unallocated expenses | | | | | | |
| – Central administration costs | | | | | **(27,900)** | (50,312) |
| – Finance costs | | | | | **(12,909)** | (5,198) |
| Loss before tax | | | | | **(36,895)** | (56,914) |

Segment loss represents the loss from each segment without allocation of interest income, other income, other gains and losses, central administration costs and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 7. SEGMENT INFORMATION *(Continued)*

### Segment assets and liabilities

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

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| **Segment assets** | | |
| Coal mining | **1** | 1 |
| Coal trading | **73** | 4,393 |
| Total segment assets | **74** | 4,394 |
| Unallocated assets | **9,426** | 15,461 |
| Consolidated assets | **9,500** | 19,855 |
| **Segment liabilities** | | |
| Coal mining | **2,123** | 1,818 |
| Coal trading | **1,133** | 1,942 |
| Total segment liabilities | **3,256** | 3,760 |
| Unallocated liabilities | **109,500** | 74,595 |
| Consolidated liabilities | **112,756** | 78,355 |

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than bank balances and cash and head office assets; and
- all liabilities are allocated to operating segments other than head office liabilities.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 7. SEGMENT INFORMATION *(Continued)*

### Other segment information

| | Coal mining | | Coal trading | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | | | |
| Capital expenditure | **–** | – | **–** | 10 | **–** | 29 | **–** | 39 |
| Depreciation | **–** | – | **15** | 14 | **1,884** | 1,899 | **1,899** | 1,913 |

### Geographical information

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

Information about the Group's revenue from external customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **–** | – | **791** | 2,675 |
| PRC | **4,744** | 11,219 | **34** | 45 |
| | **4,744** | 11,219 | **825** | 2,720 |

### Information about major customers

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

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A | **3,017** | 11,219 |
| Customer B | **1,727** | – |

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 8. OTHER INCOME, OTHER GAINS AND LOSSES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Other income | | |
| Interest income | **6** | 6 |
| Others | **141** | – |
| | **147** | 6 |
| Other gains and losses | | |
| Exchange gain | **7,503** | – |
| Impairment loss recognised in respect of trade receivables | **(1,906)** | – |
| | **5,597** | – |

## 9. FINANCE COSTS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Interest on | | |
| – obligations under a finance lease | **9** | 16 |
| – other borrowings | **8,340** | 1,578 |
| – unlisted bonds | **4,560** | 3,604 |
| | **12,909** | 5,198 |

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 10. TAXATION

No provision for the PRC Enterprise Income Tax ("EIT") has been made as the Group incurred tax losses for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

No provision for Hong Kong Profits Tax has been made as the Group incurred tax losses for both years.

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

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Loss before tax | **(36,895)** | (56,914) |
| Tax at applicable tax rate of 25% (2017: 25%) | **(9,224)** | (14,229) |
| Tax effect of expenses not deductible for tax purpose | **2,984** | 7,223 |
| Tax effect of tax losses not recognised | **3,567** | 2,145 |
| Effect of different tax rate of group entities operating in other jurisdictions | **2,673** | 4,861 |
| Taxation for the year | **–** | – |

Details of unrecognised deferred tax are set out in note 21.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 11. LOSS FOR THE YEAR

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Loss for the year has been arrived at after charging (crediting): | | |
| Staff costs (including directors' remuneration): | | |
| Salaries and other benefits | **13,807** | 17,735 |
| Retirement benefit scheme contributions | **519** | 514 |
| Total employee benefits expenses | **14,326** | 18,249 |
| Auditors' remuneration | | |
| – Audit services | **998** | 1,103 |
| – Non-audit services | **20** | 3,251 |
| Depreciation of property, plant and equipment | **1,899** | 1,913 |
| Gain on disposal of property, plant and equipment | **(6)** | – |
| Cost of inventories recognised as an expense | **4,536** | 10,702 |
| Operating lease rentals in respect of rented premises | **4,000** | 4,034 |

## 12. DIVIDENDS

No dividend was paid or proposed for both years, nor has any dividend been proposed since the end of the reporting period (2017: nil).

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 13. DIRECTORS' AND EMPLOYEES' REMUNERATION

### (a) Directors' emoluments

Directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

**2018**

| | Fees HK$'000 | Salaries and other benefits HK$'000 | Contribution to retirement benefit scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Zhu Xinjiang *(Chairman)* | – | 1,077 | 7 | 1,084 |
| Cheung Siu Fai | – | 500 | 8 | 508 |
| Sun David Lee | – | 500 | 8 | 508 |
| Yeung Ting Lap, Derek Emory | – | 500 | 8 | 508 |
| **Independent non-executive directors** | | | | |
| Ho Man Kin, Tony | 180 | – | – | 180 |
| Li Kar Fai, Peter | 180 | – | – | 180 |
| Edward John HILL III | 180 | – | – | 180 |
| | 540 | 2,577 | 31 | 3,148 |

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 13. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

### (a) Directors' emoluments *(Continued)*

2017

| | Fees HK$'000 | Salaries and other benefits HK$'000 | Contribution to retirement benefit scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Zhu Xinjiang *(Chairman)* | – | 3,840 | 18 | 3,858 |
| Cheung Siu Fai | – | 1,200 | 18 | 1,218 |
| Sun David Lee | – | 1,200 | 18 | 1,218 |
| Yeung Ting Lap, Derek Emory | – | 1,200 | 18 | 1,218 |
| **Independent non-executive directors** | | | | |
| Ho Man Kin, Tony | 180 | – | – | 180 |
| Li Kar Fai, Peter | 180 | – | – | 180 |
| Edward John HILL III | 180 | – | – | 180 |
| | 540 | 7,440 | 72 | 8,052 |

*Notes:*

(i) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(ii) The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

(iii) Remuneration in aggregate amount of HK$2,240,000 during the year (2017: Nil) was waived by the executive directors of the Company. Other than this, there was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31st March 2018 and 2017.

### (b) Employees' emoluments

The five highest paid employees of the Group during the year included one director (2017: three directors), details of whose remuneration are set out in (a) above. The fourth, fifth and sixth highest paid employees were earning the same amount of remuneration during the year ended 31st March 2017.

Details of the remuneration for the year of the remaining four (2017: two) highest paid employees who are not directors of the Company are as follows:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Salaries and other benefits | **5,596** | 3,300 |
| Retirement benefit scheme contributions | **72** | 34 |
| | **5,668** | 3,334 |

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 13. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

### (b) Employees' emoluments *(Continued)*

The number of the highest paid employees who are not directors of the Company whose remuneration fell within the following bands is as follows:

| | **2018 No. of employees** | 2017 No. of employees |
|---|---|---|
| Nil to HK$1,000,000 | **1** | – |
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| HK$1,500,001 to HK$2,000,000 | **2** | 2 |
| | **4** | 2 |

During the years ended 31st March 2018 and 2017, no remuneration was paid by the Group to the five highest paid individuals, or any of the directors of the Company, as an inducement to join or upon joining the Group or as a compensation for loss of office.

### (c) Remuneration of key management

The key management of the Group is the directors of the Company, details of whose emoluments are set out in (a) above.

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

## 14. LOSS PER SHARE

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

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share | **(36,895)** | (56,914) |

| | **2018** | 2017 |
|---|---|---|
| **Number of shares** | | |
| Number of ordinary shares for the purposes of basic and diluted loss per share | **9,607,753,752** | 9,607,753,752 |

In calculating the diluted loss per share for the years ended 31st March 2018 and 2017, the potential issue of shares arising from the Company's share options would decrease the loss per share and was therefore not taken into account.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Furniture, fixtures and office equipment | Leasehold improvements | Computer equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **COST** | | | | | |
| At 1st April 2016 | 336 | 2,370 | 782 | 9,369 | 12,857 |
| Exchange realignment | (9) | – | (30) | (44) | (83) |
| Additions | – | – | 39 | – | 39 |
| At 31st March 2017 | 327 | 2,370 | 791 | 9,325 | 12,813 |
| Exchange realignment | (6) | – | 11 | 8 | 13 |
| Disposals | (12) | – | – | – | (12) |
| At 31st March 2018 | 309 | 2,370 | 802 | 9,333 | 12,814 |
| **DEPRECIATION** | | | | | |
| At 1st April 2016 | 200 | 2,370 | 722 | 4,967 | 8,259 |
| Exchange realignment | (8) | – | (28) | (43) | (79) |
| Provided for the year | 57 | – | 36 | 1,820 | 1,913 |
| At 31st March 2017 | 249 | 2,370 | 730 | 6,744 | 10,093 |
| Exchange realignment | (6) | – | 7 | 8 | 9 |
| Eliminated on disposals | (12) | – | – | – | (12) |
| Provided for the year | 57 | – | 22 | 1,820 | 1,899 |
| At 31st March 2018 | 288 | 2,370 | 759 | 8,572 | 11,989 |
| **CARRYING VALUES** | | | | | |
| At 31st March 2018 | 21 | – | 43 | 761 | 825 |
| At 31st March 2017 | 78 | – | 61 | 2,581 | 2,720 |

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Furniture, fixtures and office equipment | 10% – 33.3% |
| Leasehold improvements | Over the shorter of the term of the relevant lease,or 3 years |
| Computer equipment | 33.3% |
| Motor vehicles | 20% – 33.3% |

The carrying values of the Group's motor vehicles included an amount of HK$189,000 (2017: HK$331,000) in respect of assets held under finance leases.

The Group has pledged motor vehicles with a carrying value of HK$255,000 (2017: HK$1,786,000) to secure the borrowings from a non-bank financial institution.

## 16. EXPLORATION AND EVALUATION ASSETS

| | **2018 & 2017** |
|---|---|
| | HK$'000 |
| At cost | 382,446 |
| Less: impairment loss | (382,446) |
| | – |

The exploration and evaluation assets represent all costs directly associated with exploration and evaluation and are initially capitalised. Exploration and evaluation assets are those expenditures for an area where technical feasibility and commercial viability have not been determined. Exploration and evaluation assets include acquisition of rights to explore, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies.

The exploration and evaluation assets of the Group represented the considerations paid for acquisitions of mineral mining licenses and exploration licenses in respect of the Saikhan Ovoo coal deposits in the Bulgan province of Mongolia in previous years and the costs incurred for subsequent exploration and evaluation works.

On 25th January 2008, the Company as the purchaser, CEC Resources Limited ("CEC Resources") as the vendor, and China Enterprise Capital Limited as the guarantor entered into a sale and purchase agreement pursuant to which the Company conditionally agreed to acquire from CEC Resources the entire issued share capital of Giant Field Group Limited ("GF"). Both CEC Resources and China Enterprise Capital Limited were independent third parties of the Company.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 16. EXPLORATION AND EVALUATION ASSETS *(Continued)*

In accordance with the abovementioned sale and purchase agreement, SMI LLC ("SMI"), incorporated in Mongolia, became an indirectly wholly-owned subsidiary of the Company after the GF acquisition. The principal assets of SMI are two mineral mining rights of 30 years in respect of the Saikhan Ovoo coal deposit in the Bulgan province of Mongolia. The mining right licenses are MV-011985 and MV-002366 with 1,229.15 and 39.36 hectares respectively, and located in the same area.

The Group's mining rights may be restricted as a result of the enactment of the MPL in 2009, details of which are set out in the published consolidated financial statements of the Group for the year ended 31st March 2013. According to the MPL, the affected license holders, including SMI, are to be compensated but details of the compensation are not currently available.

SMI received a letter dated 11th September 2015 from the Authority informing SMI that the two mining rights are partially within the area designated as land where mineral exploration and mining are prohibited under the MPL. Accordingly, such overlapped areas may be expropriated and the relevant licenses may be revised. The Group is currently in the process of negotiating with the Authority in view that prospective underground mining operations would not affect the aforementioned prohibited areas.

Full impairment loss for the mining right licenses MV-011985 and MV-002366 has been recognised in accordance with HKAS 36 "*Impairment of Assets*" during the year ended 31st March 2014.

During the year ended 31st March 2018, the Group had incurred an amount of HK$472,000 (2017: HK$398,000) for the exploration and evaluation work on the Saikhan Ovoo coal mine, including license fee, labour and other costs directly attributable to exploration activities. The Group has not carried out any development nor production activity.

After seeking legal advice, the directors of the Company consider no reversal of the impairment loss of the mining right licenses, including MV-011985 and MV-002366, at this stage is appropriate in the current year, because of the following:

- There has been no change on the MPL which significantly restricts the Group from mining exploration activities;

- The compensation investigation of any enforcement is still in progress by the Authority and the related departments, and accordingly the amount and timing of any compensation cannot be determined;

- The legal and political environment of Mongolia remains uncertain; and

- There are no precedent cases of compensation being paid by the Authority in respect of expropriated area of mining activities.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 16. EXPLORATION AND EVALUATION ASSETS *(Continued)*

The directors of the Company will continue to review the carrying amount of the mining rights and assess the recoverable amount by taking into account, among others, the overall market conditions for coal and any impact arising from the MPL. If the compensation amount and timing of receipt under the MPL could be accurately determined, the reversal of the impairment of mining right licenses may be recognised as income immediately.

## 17. TRADE AND OTHER RECEIVABLES

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Trade receivables | **2,001** | 3,780 |
| Less: allowance for doubtful debts | **(2,001)** | – |
| | **–** | 3,780 |
| Deposits and prepayments | **2,934** | 3,368 |
| | **2,934** | 7,148 |

As at 31st March 2018, the Group has made provisions on trade receivable which was due from one customer with aging between 181-365 days because the directors are of the opinion that these receivables were not recoverable.

As at 31st March 2017, the whole amount of trade receivables was due from the sole customer of the Group. The Group allows its trade customers a credit period ranging from 15 to 90 days from the date of invoice.

The following is an aged analysis of trade receivables, net of allowance, presented based on the invoice date at the end of the reporting period:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Within 90 days | **–** | 1,057 |
| 91-180 days | **–** | 2,723 |
| | **–** | 3,780 |

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 17. TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31st March 2017, included in the Group's trade receivable balance is an aggregate carrying amount of HK$2,723,000 which is past due at the end of the reporting period for which the Group has not recognised an impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables was 110 days as at 31st March 2017.

Aging of trade receivables which are past due but not impaired:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Overdue by: | | |
| Within 90 days | **–** | 2,723 |

The Group closely monitors the granting of credit and periodically reviews the recoverability of each trade receivable. As at 31st March 2017, management assessed and considered the Group's outstanding trade receivables were in good credit quality as there is no history of default from the customer.

Movements in the allowance for doubtful debts:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Balance at beginning of the year | **–** | – |
| Amounts recognised during the year | **1,906** | – |
| Exchange realignment | **95** | – |
| Balance at end of the year | **2,001** | – |

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 18. BANK BALANCES AND CASH

### Bank balances

Bank balances carry interest at market rates ranging from 0.001% to 0.350% (2017: 0.001% to 0.350%) per annum.

The amount of the Group's bank balances and cash denominated in currencies other than the functional currencies of the relevant group companies is set out below:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| HK$ | **3,377** | 3,945 |
| RMB | **3** | 13 |
| US dollars ("USD") | **–** | 787 |
| | **3,380** | 4,745 |

## 19. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

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

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade payables: | | |
| Within 90 days | **–** | – |
| 91 to 180 days | **–** | – |
| 181 to 365 days | **–** | 903 |
| Over 365 days | **1,133** | 1,033 |
| | **1,133** | 1,936 |
| Accrued charges | **3,379** | 9,048 |
| Other payables | **2,141** | 1,180 |
| | **6,653** | 12,164 |

The average credit period on purchases of coals is 15 to 60 days (2017: 15 to 60 days).

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 20. AMOUNT DUE TO A RELATED PARTY

The amount represents advances from Sharp Victory, the immediate and ultimate holding company of the Company. The amount is non-trade in nature, unsecured, interest-free and repayable on demand.

## 21. DEFERRED TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax asset and liability have been offset. The following are the deferred tax liability and asset recognised and movements thereon during the current and prior years:

| | **Accelerated tax depreciation** HK$'000 | **Tax losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1st April 2016 | 98 | (98) | – |
| (Credit) charge to profit or loss | (98) | 98 | – |
| At 31st March 2017 and 31st March 2018 | – | – | – |

At the end of the reporting period, the Group has unused tax losses of approximately HK$118,000,000 (2017: HK$101,000,000) available for offset against future profits. No deferred tax asset has been recognised in both years due to the unpredictability of future profit streams.

At 31st March 2018, included in unrecognised tax losses are losses of HK$12,547,000 (2017: HK$8,639,000) that will expire in 2018 to 2023 (2017: 2017 to 2022). Other losses may be carried forward indefinitely.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 22. OTHER BORROWINGS

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Borrowings from a non-bank financial institution | (i) | **660** | 1,727 |
| Loans from independent third parties | (ii) | **65,899** | 27,467 |
| | | **66,559** | 29,194 |
| Secured | | **660** | 1,727 |
| Unsecured | | **65,899** | 27,467 |
| | | **66,559** | 29,194 |
| The other borrowings are repayable: | (iii) | | |
| Within one year | | **44,868** | 2,691 |
| Within a period of more than one year but not exceeding two years | | **21,691** | 26,503 |
| | | **66,559** | 29,194 |
| Less: Amounts due within one year shown under current liabilities | | **(44,868)** | (2,691) |
| Amounts due after one year shown under non-current liabilities | | **21,691** | 26,503 |

*Notes:*

(i) At 31st March 2018 and 2017, the amount represented fixed-rate borrowings from a non-bank financial institution, which are repayable over 4 years by monthly instalment without a repayable-on-demand clause. The effective interest rate for both years was 7.47% per annum. The borrowings are denominated in HK$ and secured by certain motor vehicles owned by the Group.

(ii) At 31st March 2018, loan amounting to HK$1,914,000 (2017: HK$1,624,000) is unsecured, repayable on demand and carries interest at the fixed rate of 8% per annum.

At 31st March 2018, two loans amounting to HK$63,985,000 in aggregate are unsecured, carrying interest at the fixed rate of 7% per annum, repayable semi-annually until October 2018 and August 2019. The effective interest rate is at 17.65% per annum.

At 31st March 2017, loan amounting to HK$25,843,000 was unsecured, carrying interest at the fixed rate of 7% per annum, repayable semi-annually until October 2018. The effective interest rate was at 16.93% per annum.

At 31st March 2018, the Group has unutilised loan facility of HK$45,000,000 (2017: HK$15,000,000).

(iii) The amounts due are based on scheduled repayment dates set out in the loan agreements.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 23. OBLIGATIONS UNDER A FINANCE LEASE

The Group leased a motor vehicle under a finance lease. The lease term is 5 years. Interest rate underlying the lease is fixed at contract date at 4.27% per annum. The Group has options to purchase the motor vehicle for a nominal amount at the end of the lease term. No arrangements have been entered into for contingent rental payments.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amounts payable under finance lease: | | | | |
| Within one year | **128** | 155 | **126** | 146 |
| Within a period of more than one year but not exceeding two years | **–** | 128 | **N/A** | 126 |
| Less: Future finance charges | **(2)** | (11) | **N/A** | N/A |
| Present value of lease obligations | **126** | 272 | **126** | 272 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | **(126)** | (146) |
| Amount due for settlement after 12 months | | | **–** | 126 |

The Group's obligations under this finance lease are secured by the lessor's title to the leased asset.

Finance lease obligations are denominated in HK$.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 24. UNLISTED BONDS

The movements of the unlisted bonds for the year are as follows:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Initial fair values on the dates of issuance | **27,007** | 25,200 |
| Interest expenses *(Note 9)* | **4,560** | 3,604 |
| Interest paid during the year | **(1,582)** | (1,279) |
| Interest payable credited to other payables | **(518)** | (518) |
| Carrying amount as at 31st March | **29,467** | 27,007 |

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Analysed as: | | |
| Current | **29,467** | – |
| Non-current | **–** | 27,007 |
| | **29,467** | 27,007 |

On 21st April 2016, the Company entered into a placing agreement for the placement of unlisted bonds up to an aggregate principal amount of HK$30,000,000. The unlisted bonds carrying interest at the fixed rate of 7% per annum (interest payable semi-annually in arrears) were drawn down between May and June 2016 and will mature in May and June 2018, respectively. Subsequent to the end of the reporting period, the Group has partially settled the unlisted bonds with a principal amount of HK$23,000,000.

The effective interest rate of the unlisted bonds is 16.20% per annum for both years.

## 25. SHARE CAPITAL

| | **Authorised** | | **Issued and fully paid** | |
|---|---|---|---|---|
| | **Number of shares** | **Nominal value** HK$'000 | **Number of shares** | **Nominal value** HK$'000 |
| Ordinary shares of HK$0.01 each | | | | |
| At 1st April 2016, 31st March 2017 and 31st March 2018 | 300,000,000,000 | 3,000,000 | 9,607,753,752 | 96,078 |

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 26. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

The table below details the change in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those from which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

| | Other payables HK$'000 *(Note 19)* | Amount due to a related party HK$'000 *(Note 20)* | Other borrowings HK$'000 *(Note 22)* | Obligations under a finance lease HK$'000 *(Note 23)* | Unlisted bonds HK$'000 *(Note 24)* | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1st April 2017 | 1,180 | 9,718 | 29,194 | 272 | 27,007 | 67,371 |
| Financing cash flows | (3,149) | 233 | 32,440 | (155) | (1,582) | 27,787 |
| *Non-cash changes* | | | | | | |
| Accrued interest | 4,110 | – | (3,592) | – | (518) | – |
| Exchange reserve | – | – | 177 | – | – | 177 |
| Finance costs *(Note 9)* | – | – | 8,340 | 9 | 4,560 | 12,909 |
| **At 31st March 2018** | 2,141 | 9,951 | 66,559 | 126 | 29,467 | 108,244 |

## 27. SHARE-BASED PAYMENT TRANSACTIONS

Details of the share option schemes adopted by the Company are as follows:

### (a) 2003 Scheme

A share option scheme (the "2003 Scheme") was adopted by the Company pursuant to a resolution passed on 26th August 2003. Under the 2003 Scheme, the directors of the Company may invite any director (including non-executive director and independent non-executive director), employee of the Company or any of its subsidiaries or associated companies or any suppliers of goods or services to the Group to take up options to subscribe for share of HK$0.01 each (which was adjusted to HK$0.10 per share following the consolidation of the Company's shares on 20th December 2004 and further adjusted to HK$0.01 per share following the capital reorganisation of the Company's shares on 5th March 2013) in the capital of the Company.

Upon acceptance of the option, a nominal consideration of HK$1.00 will be paid by each grantee for each lot of share option granted within 21 days from the date of making offer of option. The options are exercisable within ten years after date of grant.

The 2003 Scheme was terminated on 28th September 2007 upon the adoption of the 2007 Scheme (see (b) below) on the same day.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

### (b) 2007 Scheme

Another share option scheme (the "2007 Scheme") was adopted by the Company pursuant to a resolution passed on 28th September 2007. Under the 2007 Scheme, the directors of the Company may invite any director (including non-executive director and independent non-executive director), employee of the Company or any of its subsidiaries or associated companies or any suppliers of goods or services to the Group to take up options to subscribe for share of HK$0.10 each (which was adjusted to HK$0.01 per share following the capital reorganisation of the Company's shares on 5th March 2013) in the capital of the Company.

Upon acceptance of the option, a nominal consideration of HK$1.00 will be paid by each grantee for each lot of share option granted within 21 days from the date of making offer of option. The options are exercisable within ten years after date of grant.

The 2007 Scheme was terminated on 28th September 2016 upon the adoption of the 2016 Scheme (see (c) below) on the same day.

### (c) 2016 Scheme

Another share option scheme (the "2016 Scheme") was adopted by the Company pursuant to a resolution passed on 28th September 2016. Under the 2016 Scheme, the directors of the Company may invite any director (including non-executive director and independent non-executive director), employee of the Company or any of its subsidiaries or associated companies or any suppliers of goods or services to the Group to take up options to subscribe for share of HK$0.01 each in the capital of the Company.

Upon acceptance of the option, a nominal consideration of HK$1.00 will be paid by each grantee for each lot of share option granted within 21 days from the date of making offer of option. The options are exercisable within ten years after date of grant.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The following table discloses movements in the Company's share options during the years ended 31st March 2018 and 2017:

| | Option scheme type | Date of grant | Vesting period | Exercisable period | Exercise price per share HK$ | At 1st April 2016 | Lapsed during the year | At 31st March 2017 | Lapsed during the year | At 31st March 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | 2007 | 29th July 2010 | N/A | 29th July 2010 to 28th July 2020 | 0.20 | 20,000,000 | – | 20,000,000 | – | 20,000,000 |
| **Employees** | 2007 | 3rd March 2009 | N/A | 3rd March 2009 to 2nd March 2019 | 0.27 | 2,000,000 | – | 2,000,000 | – | 2,000,000 |
| **Consultants** | 2003 | 21st August 2006 | N/A | 21st August 2006 to 21st August 2016 | 0.21 | 5,442,320 | (5,442,320) | – | – | – |
| | 2007 | 22nd November 2007 | N/A | 22nd November 2007 to 21st November 2017 | 0.27 | 18,060,000 | – | 18,060,000 | (18,060,000) | – |
| | | | | | | 45,502,320 | (5,442,320) | 40,060,000 | (18,060,000) | 22,000,000 |
| Exercisable at end of the year | | | | | | | | 40,060,000 | | 22,000,000 |
| Weighted average exercise price (HK$) | | | | | | 0.232 | 0.21 | 0.235 | 0.27 | 0.206 |

During the years ended 31st March 2018 and 2017, no options were granted or agreed to be granted or exercised under the 2003 Scheme, 2007 Scheme or 2016 Scheme.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 28. OPERATING LEASES

### The Group as lessee

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

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **4,028** | 3,990 |
| In the second to fifth year inclusive | **159** | 4,106 |
| | **4,187** | 8,096 |

Operating lease payments represent rentals payable by the Group for certain of the Group's offices. Leases are negotiated for terms ranging from one to three years and rentals are fixed over the lease terms.

## 29. RETIREMENT BENEFIT SCHEMES

### Hong Kong

The Group participates in a MPF Scheme established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

### Mongolia and PRC

The employees of the Group employed in Mongolia and PRC are members of the state-managed retirement benefit schemes operated by the respective governments of Mongolia and PRC. The Mongolian and PRC subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

## 30. RELATED PARTY DISCLOSURES

(i) Details of the Group's outstanding balance with a related party are set out in the consolidated statement of financial position and in note 20.

(ii) Compensation of key management personnel which is the directors of the Company during the year is set out in note 13.

(iii) During the years ended 31st March 2018 and 2017, Mr. Zhu provided a personal guarantee to the extent of HK$708,000 to a bank to secure the obligations under a finance lease as disclosed on note 23.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 31. PLEDGE OF ASSETS

At the end of reporting period, certain motor vehicles of the Group with a carrying amount of HK$255,000 (2017: HK$1,786,000) were pledged to secure the borrowings from a non-bank financial institution.

In addition, the Group's obligations under a finance lease (see note 23) are secured by the lessor's title to the leased asset, which has a carrying amount of HK$189,000 as at 31st March 2018 (2017: HK$331,000).

## 32. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Group as at 31st March 2018 which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

| Name of subsidiaries | Place of incorporation/ establishment and operations | Issued and fully paid share capital/ registered capital | Proportion of issued share capital held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Directly | | Indirectly | | |
| | | | **2018** | 2017 | **2018** | 2017 | |
| NB Management Services Limited | Hong Kong | HK$1 | **100%** | 100% | **-** | - | Provision of management services |
| Hui Bao Resources (Hong Kong) Limited | Hong Kong | HK$1 | **100%** | 100% | **-** | - | Coal trading |
| SMI LLC | Mongolia | MNT12,000,000 | **-** | - | **100%** | 100% | Coal mining |
| 廣東亞煤能源貿易有限公司 | PRC | RMB10,000,000 | **-** | - | **100%** | 100% | Coal trading |

At the end of the reporting period, the Company has 3, 2 and 1 subsidiaries (2017: 3, 4 and 1) located and operated in Hong Kong, the British Virgin Islands and the PRC, respectively, that are not material to the Group. Principal activities of these subsidiaries are provision of management services to the Group or investment holding.

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

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The following is the statement of financial position of the Company as at 31st March 2018:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **ASSETS AND LIABILITIES** | | |
| Non-current asset | | |
| Investments in subsidiaries | **–** | – |
| Current assets | | |
| Other receivables | **1,685** | 1,500 |
| Bank balances | **3,322** | 3,748 |
| | **5,007** | 5,248 |
| Current liabilities | | |
| Other payables and accrued charges | **4,775** | 9,678 |
| Amount due to a related party | **8,589** | 8,589 |
| Other borrowings | **42,294** | – |
| Unlisted bonds | **29,467** | – |
| | **85,125** | 18,267 |
| Net current liabilities | **(80,118)** | (13,019) |
| Non-current liabilities | | |
| Other borrowings | **21,691** | 25,843 |
| Unlisted bonds | **–** | 27,007 |
| | **21,691** | 52,850 |
| Net liabilities | **(101,809)** | (65,869) |
| **CAPITAL AND RESERVES** | | |
| Share capital | **96,078** | 96,078 |
| Reserves *(note)* | **(197,887)** | (161,947) |
| Total equity | **(101,809)** | (65,869) |

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

*Note:*

**Reserves**

| | Share premium HK$'000 | Share options reserve HK$'000 | Capital contribution reserve HK$'000 | Translation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1st April 2016 | 548,246 | 3,025 | 363 | (161) | (657,037) | (105,564) |
| Loss for the year | – | – | – | – | (58,258) | (58,258) |
| Exchange differences arising on translation | – | – | – | 1,875 | – | 1,875 |
| Total comprehensive income (expense) for the year | – | – | – | 1,875 | (58,258) | (56,383) |
| Subtotal | 548,246 | 3,025 | 363 | 1,714 | (715,295) | (161,947) |
| Lapse of share options | – | (285) | – | – | 285 | – |
| At 31st March 2017 | 548,246 | 2,740 | 363 | 1,714 | (715,010) | (161,947) |
| Loss for the year | – | – | – | – | (28,143) | (28,143) |
| Exchange differences arising on translation | – | – | – | (7,797) | – | (7,797) |
| Total comprehensive expense for the year | – | – | – | (7,797) | (28,143) | (35,940) |
| Subtotal | 548,246 | 2,740 | 363 | (6,083) | (743,153) | (197,887) |
| Lapse of share options | – | (1,357) | – | – | 1,357 | – |
| At 31st March 2018 | 548,246 | 1,383 | 363 | (6,083) | (741,796) | (197,887) |

## 34. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debts, which include amount due to a related party, other borrowings, obligations under a finance lease and unlisted bonds, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendation of the directors of the Company, the Group will balance its overall capital structure through the issue of new debt or the redemption of existing debt, as well as new share issues.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 35. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables<br>(including cash and cash equivalents) | **5,741** | 13,767 |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost | **109,251** | 69,035 |
| Obligations under a finance lease | **126** | 272 |
| | **109,377** | 69,307 |

### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, bank balances and cash, trade and other payables, amount due to a related party, other borrowings, obligations under a finance lease and unlisted bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner.

**Market risks**

*(i) Currency risk*

The Group has monetary assets and liabilities denominated in USD, RMB and HK$, which are not the functional currency of the relevant group companies, which expose the Group to market risk arising from change in foreign exchange rates. The Group currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Assets** | | |
| HK$ | **3,377** | 3,945 |
| RMB | **3** | 13 |
| USD | **–** | 794 |
| **Liabilities** | | |
| HK$ | **104,183** | 62,619 |

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 35. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

**Market risks** ***(Continued)***

*(i) Currency risk (Continued)*

*Sensitivity analysis*

In the opinion of directors of the Company, as the Group's foreign currency risk in relation to RMB against HK$, and USD against RMB is insignificant for both years, no sensitivity analysis is presented.

The Group is mainly exposed to the currency of HK$ against RMB in relation to bank balances, other borrowings, unlisted bonds and amount due to a related party.

The Group's sensitivity analysis is prepared by using a 10% (2017: 10%) increase and decrease in RMB against HK$. Having considered the fluctuation of foreign exchange rates in the current year, 10% (2017: 10%) is the sensitivity rate used by management for the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% (2017: 10%) change in foreign currency rates. Where HK$ strengthens 10% (2017: 10%) against RMB, the Group loss for the year would be increased by approximately HK$10,081,000 (2017: HK$5,867,000). For 10% (2017: 10%) weakening of HK$ against RMB, there would be an equal and opposite impact on the loss for the year.

In addition, the Group is exposed to foreign currency risk as a result of intra-group balances denominated in currencies other than the respective functional currency of the relevant group companies, as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| **Liabilities** | | |
| USD | **26,444** | 25,744 |

The Group is mainly exposed to the currency of USD against Mongolian Tögrögs ("MNT") in relation to the intra-group balances.

The Group's sensitivity analysis is prepared by using a 10% (2017: 10%) increase and decrease in MNT against USD. Having considered the fluctuation of foreign exchange rates in the current year, 10% (2017: 10%) is the sensitivity rate used by management for the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% (2017: 10%) change in foreign currency rates. Where USD strengthens 10% (2017: 10%) against MNT, the Group loss for the year would be increased by approximately HK$2,644,000 (2017: HK$2,574,000). For 10% (2017: 10%) weakening of USD against MNT, there would be an equal and opposite impact on the loss for the year.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 35. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

**Market risks *(Continued)***

*(ii) Interest rate risk*

The Group's bank balances (see note 18 for details) carry floating-rate interests and have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates.

The Group is exposed to fair value interest rate risk in relation to borrowings from a non-bank financial institution and independent third parties, obligations under a finance lease and unlisted bonds (see notes 22, 23 and 24 for details).

The Group currently does not have a hedging policy on interest rate risk. However, management closely monitors interest rate exposure and will consider hedging significant interest rate change exposure should the need arise.

*Sensitivity analysis*

No sensitivity analysis of interest rate risk is presented as the directors of the Company consider the Group's exposure to interest rate risk is not significant.

**Credit risk**

As at 31st March 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's concentration of credit risk by geographical locations is in the PRC, which accounted for 100% of the total trade receivables as at 31st March 2018 and 2017. The Group has concentration of credit risk as the whole amount of trade receivables was due from the Group's customers within the coal trading segment.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk in relation to deposits with banks. However, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on trade receivables and liquid funds, the Group does not have any other significant concentration of credit risk.

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 35. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

**Liquidity risk**

In the 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$82,390,000 (2017: HK$7,584,000).

As at 31st 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 Sharp Victory has agreed to provide continuous financial support to the Group as necessary.

The following table details the Group's contractual maturity for its non-derivative financial liabilities. The table has 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 maturity dates for the financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

| | Weighted average interest rate % | On demand or less than 1 month HK$'000 | More than 1 month but within 3 months HK$'000 | More than 3 months but within 1 year HK$'000 | Over 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Total carrying amount HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 31st March 2018** | | | | | | | |
| Trade and other payables | - | 1,141 | 1,994 | 139 | - | 3,274 | 3,274 |
| Amount due to a related party | | | | | | | |
| – non-interest bearing | - | 9,951 | - | - | - | 9,951 | 9,951 |
| Borrowings from a non-bank financial institution | | | | | | | |
| – fixed rate | 7.47 | 97 | 193 | 387 | - | 677 | 660 |
| Loans from independent third parties | | | | | | | |
| – fixed rate | 17.37 | 1,914 | 95 | 46,582 | 27,447 | 76,038 | 65,899 |
| Obligations under a finance lease | 4.27 | 13 | 26 | 90 | - | 129 | 126 |
| Unlisted bonds | 16.20 | - | 30,821 | - | - | 30,821 | 29,467 |
| | | 13,116 | 33,129 | 47,198 | 27,447 | 120,890 | 109,377 |

# Notes to the Consolidated Financial Statements

For the year ended 31st March 2018

## 35. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

**Liquidity risk *(Continued)***

| | Weighted average interest rate % | On demand or less than 1 month HK$'000 | More than 1 month but within 3 months HK$'000 | More than 3 months but within 1 year HK$'000 | Over 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Total carrying amount HK$'000 |
|---|---|---|---|---|---|---|---|
| At 31st March 2017 | | | | | | | |
| Trade and other payables | – | 2,598 | 518 | – | – | 3,116 | 3,116 |
| Amount due to a related party | | | | | | | |
| – non-interest bearing | – | 9,718 | – | – | – | 9,718 | 9,718 |
| Borrowings from a non-bank financial institution | | | | | | | |
| – fixed rate | 7.47 | 97 | 193 | 870 | 677 | 1,837 | 1,727 |
| Loans from independent third parties | | | | | | | |
| – fixed rate | 16.40 | 1,797 | – | 1,059 | 31,985 | 34,841 | 27,467 |
| Obligations under a finance lease | 4.27 | 13 | 26 | 116 | 128 | 283 | 272 |
| Unlisted bonds | 16.20 | – | 524 | 1,059 | 30,821 | 32,404 | 27,007 |
| | | 14,223 | 1,261 | 3,104 | 63,611 | 82,199 | 69,307 |

### (c) Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

## 36. EVENTS AFTER THE END OF THE REPORTING PERIOD

In May and June 2018, Sharp Victory has provided various advances to the Group amounting to approximately HK$79 million, in aggregate to enable the Group to meet its financial obligations, as disclosed in note 2.

In May 2018, the Group has drawdown HK$5,000,000 under the existing loan facility agreement with independent third party, as disclosed in note 2.

In May and June 2018, the Group has settled the unlisted bonds with a principal amount of HK$23,000,000, as disclosed in note 24.

# FINANCIAL SUMMARY

## RESULTS

| | For the year ended 31st March<br>2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000 | **2018**<br>**HK$'000** |
|---|---|---|---|---|---|
| **REVENUE** | 12,499 | 40,353 | 11,659 | 11,219 | **4,744** |
| **LOSS BEFORE TAX** | (144,097) | (24,972) | (50,408) | (56,914) | **(36,895)** |
| **INCOME TAX (EXPENSE) CREDIT** | – | (173) | 70 | – | **–** |
| **LOSS FOR THE YEAR** | (144,097) | (25,145) | (50,338) | (56,914) | **(36,895)** |
| Loss for the year attributable to: | | | | | |
| Owners of the Company | (144,094) | (25,144) | (50,338) | (56,914) | **(36,895)** |
| Non-controlling interests | (3) | (1) | – | – | **–** |
| | (144,097) | (25,145) | (50,338) | (56,914) | **(36,895)** |

## ASSETS AND LIABILITIES

| | At 31st March<br>2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000 | **2018**<br>**HK$'000** |
|---|---|---|---|---|---|
| **TOTAL ASSETS** | 36,691 | 57,113 | 22,074 | 19,855 | **9,500** |
| **TOTAL LIABILITIES** | (38,664) | (31,238) | (25,751) | (78,355) | **(112,756)** |
| **NET (LIABILITIES) ASSETS** | (1,973) | 25,875 | (3,677) | (58,500) | **(103,256)** |