



SIBERIAN MINING GROUP COMPANY LIMITED

西伯利亞礦業集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code :1142)



2018
Annual Report

*For identification purpose only

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Jo Sang Hee (*Chairman*) (re-designated as executive director on 31 August 2017 and appointed as Chairman on 1 March 2018)
Ahn Kibaek (appointed on 28 February 2018)
Shin Min Chul (appointed on 17 January 2018 and resigned on 8 April 2018)
Su Run Fa (resigned on 6 December 2017)
Hong Sang Joon (*Chairman*) (resigned on 1 March 2018)

Independent Non-executive Directors

Kwok Kim Hung Eddie
Lee Sungwoo (appointed on 31 August 2017)
Chen Dai (appointed on 29 March 2018)
Jo Sang Hee (re-designated as executive director on 31 August 2017)
Lai Han Zhen (resigned on 27 December 2017)

COMPANY SECRETARY

Wong Wing Cheong (resigned on 28 February 2018)

AUTHORISED REPRESENTATIVES

Jo Sang Hee (appointed on 28 February 2018)
Ahn Kibaek (appointed on 28 February 2018)
Hong Sang Joon (resigned on 28 February 2018)
Wong Wing Cheong (resigned on 28 February 2018)

AUDIT COMMITTEE

Kwok Kim Hung Eddie (*Chairman*)
Lee Sungwoo (appointed on 31 August 2017)
Chen Dai (appointed on 29 March 2018)
Jo Sang Hee (resigned on 31 August 2017)
Lai Han Zhen (resigned on 27 December 2017)

REMUNERATION COMMITTEE

Lee Sungwoo (*Chairman*) (appointed on 31 August 2017 and appointed as Chairman on 27 December 2017)
Kwok Kim Hung Eddie
Chen Dai (appointed on 29 March 2018)
Jo Sang Hee (resigned on 31 August 2017)
Lai Han Zhen (*Chairman*) (resigned on 27 December 2017)

NOMINATION COMMITTEE

Jo Sang Hee (*Chairman*) (appointed on 1 March 2018)
Kwok Kim Hung Eddie
Chen Dai (appointed on 29 March 2018)
Lai Han Zhen (resigned on 27 December 2017)
Hong Sang Joon (*Chairman*) (resigned on 1 March 2018)

AUDITOR

JH CPA Alliance Limited

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2402, 24/F, Tower 2, Admiralty Centre
No. 18 Harcourt Road
Admiralty
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

HKEX STOCK CODE

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WEBSITE

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CHAIRMAN'S STATEMENT

On behalf of the board of directors (the “**Board**”) of Siberian Mining Group Company Limited (the “**Company**”), I would like to present to the shareholders the annual report with the annual results of the Company and its subsidiaries (together the “**Group**”) for the year ended 31 March 2018.

PERFORMANCE AND OPERATIONS

For the year under review, the Group continued to strive for diversification in its trading business and achieved a turnover of HK\$3.0 million (2017: HK\$1.7 million). Despite the turnover from trading of paper for newspaper printing decreased to HK\$0.6 million (2017: HK\$1.2 million), the introduction of a new product of integration module contributed a turnover of HK\$2.4 million (2017: nil) to the Group, which marked the positive effects of diversification. No turnover (2017: HK\$0.5 million) from scrapped iron trading was recorded.

For the year under review, the Group recorded a loss before income tax of HK\$504.7 million (2017: a profit before income tax of HK\$2,027.3 million). The turnaround to a loss from a profit was primarily due to the net effects of (i) the reversal of impairment loss on other intangible assets (in relation to mining rights of Lot 1 and Lot 1 Extension of the Group's Russian coal mines) reduced by approximately HK\$376.6 million to HK\$94.0 million (2017: HK\$470.6 million) because the substantial increase in coal sales prices of certain type of coals and appreciation of Russian Rubles to United States Dollars of last year did not happen again in current year; (ii) the exploration and evaluation assets (in relation to mining rights of Lot 2 of the Group's Russian coal mines) showed an impairment loss of approximately HK\$69.4 million in current year, and yet there was a substantial reversal of impairment loss of the same exploration and evaluation assets of approximately HK\$1,918.5 million in last year, also because the substantial increase in coal sales prices of certain type of coals and appreciation of Russian Rubles to United States Dollars of last year did not happen again in current year; (iii) no fair value gain (2017: fair value gain of HK\$25.8 million) on capitalization of loans was recorded in current year, as there were no capitalization of loans in current year; (iv) there was only a relatively small net exchange gain of HK\$0.05 million (2017: HK\$11.0 million) in current year, since the relatively marked appreciation of Russian Rubles to United States Dollars of last year did not happen again in current year; (v) the increase in valuation in last year of other intangible assets (in relation to mining rights of Lot 1 and Lot 1 Extension of the Group's Russian coal mines) resulted in corresponding increase of amortization to HK\$97.6 million in current year (2017: HK\$6.0 million); (vi) little development in quite a number of legal proceedings in current year helped to reduce the legal and professional fees to HK\$6.5 million (2017: HK\$21.1 million); and (vii) the overall finance costs increased to HK\$410.8 million (2017: HK\$369.4 million) mainly due to increase of imputed interest of the Third Convertible Note from HK\$358.9 million to HK\$404.4 million.

It may be worthy of noting that both reversal of impairment loss on other intangible assets and impairment loss on exploration and evaluation assets were non-cash items, and hence the cash position of the Group would not be adversely affected by them.

The expiry date of mining license of Lot 1 was successfully extended from 1 November 2017 to 1 July 2025, which would enable the Group to continue to implement its strategic plan to develop underground mining of Lot 1, Lot 1 Extension and Lot 2 on an integrated basis.

The Group had been progressing as planned on the fine-tuning of the mine design and development of technical specification on open pit mining in certain area within Lot 2. Simultaneously, with the completion of additional exploration drillings in Lot 2 in June 2017, the Group had been making a good step forward in compiling the detailed and well-supported TEO Conditions in respect of underground mining of Lot 2 (TEO Conditions stands for Technical and Economic Justification of Conditions and is broadly equivalent to the Western pre-feasibility study). As part of its long range plan, the Group had also been initiating an integrated TEO Conditions which would encompass Lot 1, Lot 1 Extension and Lot 2 underground mining as a whole.

The Company's joint venture company in the People's Republic of China (the “**PRC**”) specializing in the direct operation and franchise of English kindergarten(s), which the Group is now holding a 40% stake in it, was established in February 2018.

CHAIRMAN'S STATEMENT

PROSPECTS

Looking ahead, in the midst of continuous interest rate hikes and new presidency of the United States of America, coupled with the threats of international trade wars, the global economic prospects remain uncertain, and the year ahead will remain challenging for the Group. However, the Group will strive to focus on its core businesses of (i) mineral resources, commodities and other trading and (ii) coal mining, whilst keeping an eye on potential business opportunities for diversification.

To meet the needs of different customers and to broaden the customer base, the Group will not hesitate to further diversify its trading product lines when opportunities arise. The Group targets to actively grow its turnover in trading business in the coming year, and necessary expansion in manpower of its trading operation has been implemented.

In respect of open pit mining of Lot 2, the Group has started the airborne photographic surface survey in May 2018 and completion would be targeted in August 2018. In parallel, the necessary environmental impact assessment work has been planned to cover the historical and cultural studies, inspection of land parcel, and identification of historical and cultural legacy objects and archeology artifacts (if any).

In respect of underground mining of Lot 2, the Group will make the best use of the supplementary data from additional exploration drillings to work on the detailed and well-supported TEO Conditions with the ultimate plan of compiling an integrated TEO Conditions for underground mining of Lot 1, Lot 1 Extension and Lot 2 as a whole. Once equipped with such detailed and well-supported TEO Conditions, the Group would be in a better position to obtain additional coal reserves granted by the Russian authorities. The Company plans to hire more employees for the Russian coal mines development, which will accelerate the development.

Given the various necessary steps and procedures that the Group has to go through before the coal mines could actually yield coal production, it is expected that the Lot 1, Lot 1 Extension and Lot 2 coal mines will not contribute revenue to the Group in the coming year, but the Board believes that the Russian coal mines will be able to deliver long term economic benefits to the shareholders in the years to come.

The Company has made its proportional capital contribution totaling RMB4.0 million to the PRC kindergarten joint venture company in early April 2018. The PRC joint venture company will expand into English kindergarten franchise operation by introducing British International Kindergarten ("**BIK**") (<http://www.bikchina.com/>) which was founded by Orbital Education in the United Kingdom and now runs and manages international schools around the globe. BIK has truly become a global brand and is synonymous with providing world class English based curriculums.

As the PRC economy and living standards continue to improve, the PRC families have inclined to invest heavily in the kindergarten education of their children by taking English curriculums with leading international education providers. Additionally, as the PRC's "one child policy" is retracting, the expected baby boom in the PRC in the years to come will definitely fuel the promising prospects of kindergarten operation.

To further improve the net liabilities position of the Group as of 31 March 2018, the Company will welcome possible further loan capitalizations with its major creditors and will consider potential equity funding as opportunities arise.

In addition, the Company will maintain proper communications with the holder(s) of the Third Convertible Note to explore possible solutions to resolve the alleged disputes in an amicable way, including but not limited to possible conversion of a significant portion of it and/or possible extension of its maturity date.

CHAIRMAN'S STATEMENT

APPRECIATION

Last but not least, I would like to express my heartfelt gratitude to our Board members, shareholders, business partners and our staff members for their dedication, continued support and valuable contributions to the Group.

Jo Sang Hee

Chairman

Hong Kong, 29 June 2018

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

For the year ended 31 March 2018, the Group recorded a total turnover of HK\$3.0 million (2017: HK\$1.7 million), representing an increase of approximately 76.5% as compared to last corresponding year. The increase in turnover from trading of integration module in the Korean market directly contributed to the increase in turnover for the year under review.

As mentioned in last year's annual report, the Group diversified to trade the paper for newspaper printing, and for the year under review, the Group further diversified into the trading of integration module. During the year under review, the Group recorded a turnover of HK\$0.6 million (2017: HK\$1.2 million) from trading of paper for newspaper printing, and a turnover of HK\$2.4 million (2017: nil) from the trading of integration module. There was no turnover (2017: HK\$0.5 million) recorded from scrapped iron trading.

Other Income

For the year under review, included in other income, there was a relatively small net exchange gain of HK\$0.05 million (2017: HK\$11.0 million), since the relatively substantial appreciation of Russian Rubles to United States Dollars experienced in last year did not happen again in current year.

Other Gains and Losses

During the year under review, (i) the reversal of impairment loss on other intangible assets (in relation to mining rights of Lot 1 and Lot 1 Extension of the Group's Russian coal mines) decreased by approximately HK\$376.6 million to HK\$94.0 million (2017: HK\$470.6 million) due to the substantial increase in coal sales prices of certain type of coals and appreciation of Russian Rubles to United States Dollars of last year did not happen again in current year; (ii) the exploration and evaluation assets (in relation to mining rights of Lot 2 of the Group's Russian coal mines) recorded an impairment loss of approximately HK\$69.4 million in current year and yet there was a substantial reversal of impairment loss of the same exploration and evaluation assets of approximately HK\$1,918.5 million in last year, also because of the substantial increase in coal sales prices of certain type of coals and appreciation of Russian Rubles to United States Dollars of last year did not happen again in current year; and (iii) there was no fair value gain (2017: fair value gain of HK\$25.8 million) on capitalization of loans in current year, since the capitalization of loans of last year did not happen again in current year.

Administrative and Other Expenses

During the year under review, amortization of other intangible assets (in relation to mining rights of Lot 1 and Lot 1 Extension of the Group's Russian coal mines) increased from HK\$6.0 million to HK\$97.6 million due to increase in valuation of these other intangible assets in last year. Staff costs (excluding directors' remuneration) were kept at around HK\$4.9 million (2017: HK\$4.9 million). Legal and professional fees decreased from HK\$21.1 million to HK\$6.5 million as quite a substantial number of legal proceedings involving the Company experienced little development during the year under review.

Finance Costs

During the year under review, total finance costs increased to HK\$410.8 million (2017: HK\$369.4 million) mainly resulted from the net effect of (i) the increase in imputed interest of the Third Convertible Note to HK\$404.4 million (2017: HK\$358.9 million); and (ii) the decrease in interests on loans from third parties and shareholders to HK\$6.3 million (2017: HK\$8.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Loss Before Income Tax

For the year ended 31 March 2018, the loss before income tax of the Group was HK\$504.7 million (2017: profit before income tax of HK\$2,027.3 million). The turnaround to a loss from a profit was mainly attributable to the combined effects of the aforementioned factors.

The Company would like to highlight that (i) the reversal of impairment loss of HK\$94.0 million (2017: HK\$470.6 million) on other intangible assets (in relation to mining rights of Lot 1 and Lot 1 Extension of the Group's Russian coal mines); and (ii) the impairment loss of HK\$69.4 million (2017: reversal of impairment loss of HK\$1,918.5 million) on exploration and evaluation assets (in relation to mining rights of Lot 2 of the Group's Russian coal mines) were just non-cash items arising from year end valuation exercises for accounting purposes, which would not affect the cashflow position of the Group.

OPERATION REVIEW

Mineral Resources and Commodities and Other Trading

For the year under review, trading of integration module and paper for newspaper printing were the two contributors to the Group's turnover.

Coal Mining

Lot 1 and Lot 1 Extension underground mining and Lot 2 underground mining would be developed on an integrated basis due to their geographical proximity and also for the sake of achieving economy of scale. Since coal production on Lot 2 underground mining would be targeted only in 2020, naturally not much development work was noted for Lot 1 and Lot 1 Extension for the year under review, as there was no urgency to develop Lot 1 and Lot 1 Extension underground mining alone right now.

In relation to prolongation of the mining license of Lot 1, official submission of technical design for Lot 1 was made by end of June 2017, and its approval was granted in August 2017. Following the official approval of the technical design, the formal application for prolongation of mining license of Lot 1 was submitted in mid-September 2017 to Kemerovo Geology and Licensing Department of Siberian Branch of the Agency for Subsoil Usage (called "**Kuzbassnedra**"). Upon clearance by Kuzbassnedra, the application was onward submitted to the Federal Agency for Subsoil Usage (called "**Rosnedra**") for decision. Rosnedra issued the signed protocol dated 30 October 2017 to recommend the prolongation of the mining license of Lot 1 from 1 November 2017 to 1 July 2025, and the instruction of Rosnedra was forwarded to Siberian Department of the Federal Agency for Subsoil Use (called "**Sibnedra**") for execution on 14 November 2017. Given the order of Sibnedra, Kuzbassnedra had finalized the preparation of the addendum to the mining license of Lot 1 to extend the validity of the license from 1 November 2017 to 1 July 2025. The addendum had been effective on the date of its state registration with Kuzbassnedra on 14 December 2017, which formed an integral part of the Lot 1 mining license. Hence, the extension of mining license of Lot 1 from 1 November 2017 to 1 July 2025 had been completed by 14 December 2017.

LLC "SibGeoProject", a consulting firm engaged by the Group which is capable of providing geological exploration through to mine construction, continued to refine mine design for Lot 2 open pit mining. Technical specification to develop open pit mining in certain area of Lot 2 was developed. Airborne photographic surface survey for Lot 2, and State Environmental Expert Review, a certain kind of requested environmental impact assessment, would be proceeded.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group engaged LLC "SGP-GEOLOGY" to conduct additional exploration drillings in Lot 2 to facilitate the preparation of detailed and well-supported TEO Conditions for underground mining in Lot 2 (TEO Conditions stands for Technical and Economic Justification of Conditions and is broadly equivalent to the Western pre-feasibility study). In respect of underground mining in Lot 2, a detailed and well-supported TEO Conditions may enable the Group to obtain additional coal reserves approved by GKZ (which is the State Committee of Reserves under the Russian Federation Ministry of National Resources). The additional drillings were completed in June 2017 and a total depth of approximately 15,230 metres in a total of 41 boreholes were accomplished. The documentation of drilling data was extracted, after the core samples collected and analyzed.

LLC "SibGeoProject" had also been engaged to prepare an integrated TEO Conditions and the geological report covering the underground mining of Lot 1 and Lot 1 Extension, and Lot 2 as a whole. All relevant data including borehole geophysical studies, laboratory tests, core samples and drilling data in respect of Lot 2 underground mining were transferred to LLC "SibGeoProject" to start the preparation work.

Geographical

In the year under review, the Republic of Korea ("Korea") is the Group's sole market segment which accounted for 100% (2017: 100%) of the total revenue.

Joint Venture in Kindergarten Project

As part of business diversification of the Group, the Company in June 2017 participated in a joint venture with an established education group in the People's Republic of China (the "PRC") to engage in direct operation and franchise of English kindergarten(s) in the PRC. The registered share capital of the PRC joint venture company is RMB10.0 million, and by holding a 40% stake in it, the Company's share capital contribution is RMB4.0 million. The PRC joint venture company with its Chinese name "上海惟奉教育科技有限公司" (for identification purpose, the English translation name is "Shanghai Weifeng Education and Technology Co., Ltd") has been established in February 2018.

PROSPECTS

Looking forward, the year ahead will remain challenging for the Group. In the era of new presidency coupled with interest rate hikes of the United States of America, the continuing recovery of global economy is uncertain, which will make the Group's mineral resources, commodities and other trading businesses remain rather challenging, and would also have impacts on the coal prices.

The Company, apart from focusing on its core businesses, i.e. (i) mineral resources, commodities and other trading; and (ii) coal mining, will also consider diversification into other business areas when opportunities arise.

Mineral Resources and Commodities and Other Trading

The Group will continue to adopt a flexible approach in mineral resources, commodities and other trading business, and will strive to meet the needs of different customers looking for diversified products in addition to integration module, and paper for newspaper printing.

The increase in price of gasoline and other petroleum related products during the year, and the solid demand in different electronic components of mobile phone caught the attention of the Group. The Group might start lining up business connections with these products and will not hesitate to further diversify its trading business into these products when opportunities arise.

MANAGEMENT DISCUSSION AND ANALYSIS

Coal Mining

LLC "SibGeoProject" will keep on refining the mine design for Lot 2 open pit mining. The Group in early May 2018 has also engaged LLC "SibGeoProject" to conduct airborne photographic surface survey for both Lot 1 and Lot 2, and LLC "SibGeoProject" has already started the work. The final digital topographic map with program guide and explanatory notes, covering an area of 29 km² at the scale of 1: 2000, would be expected in August 2018. LLC "SibGeoProject" will also assist in State Environmental Expert Review (a certain kind of requested environmental impact assessment) and the preparation of TEO Condition and the geological report for subsequent submission to GKZ for expert review, and the related engagement letter with LLC "SibGeoProject" is now being finalized. In addition, the Group is considering the acquisition of a plot of land within the boundary of Lot 2 for initial infrastructure and facilities purposes, when sufficient capital expenditure budgeting allows.

Starting from 2012, the Group conducted the three phases exploration drillings in accordance with the requirements of Lot 2 mining license with each phase completed in August 2012, October 2013 and January 2015, respectively. An aggregate depth of approximately 16,680 metres in a total of 32 boreholes were achieved for these three phases drillings. Taking into account of the subsequent additional drilling of a total depth of approximately 15,230 metres in a total of 41 boreholes from November 2016 to June 2017, the overall completed drillings added up to a total depth of approximately 31,910 metres in a total of 73 boreholes. All these have empowered the Group to proceed with the integrated TEO Conditions and the geological report covering the underground mining of Lot 1 and Lot 1 Extension, and Lot 2 as a whole. It is expected that the integrated TEO Conditions and the geological report will be submitted to GKZ for review and approval. The Group targets to obtain protocol on approving additional coal reserves by GKZ after September 2018. The Group is also considering a plan for preparation of a new technical report on an integrated basis which will cover both open pit mining and underground mining of Lot 2, as well as underground mining of Lot 1 and Lot 1 Extension, when sufficient capital expenditure budgeting allows.

Joint Venture in Kindergarten Project

The entire capital contribution of RMB4.0 million by the Company into the PRC joint venture company "上海惟奉教育科技有限公司" has been completed in early April 2018.

Placing of Shares, Loan Capitalizations and The Third Convertible Note

To further improve the financial position, the Company will strive to grasp opportunities in possible further loan capitalizations and potential equity funding such as further placing of new shares. In addition, the Company will try its best to maintain proper communications with the holder(s) of the Third Convertible Note to resolve the alleged disputes in an amicable manner, including but not limited to possible conversion of a significant portion of it and/or possible extension of the maturity date.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2018, the Group had net current liabilities of HK\$3,609.4 million (2017: HK\$3,239.5 million). The Group's current ratio, being a ratio of current assets to current liabilities, was 0.43% (2017: 0.46%) and the Group's gearing ratio, being a ratio of total interest-bearing borrowings to total assets, was 4.22% (2017: 1.83%).

The Group generally finances its operations with internally generated cash flows, loans from a substantial shareholder and its associates, independent third parties, and through the capital market available to listed companies in Hong Kong.

During the year under review, the Group recorded a net cash outflow of HK\$0.8 million (2017: net cash inflow of HK\$21.6 million), while the total cash and cash equivalents decrease to HK\$9.6 million (2017: increase to HK\$10.8 million) as at the end of reporting year.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 March 2018, the share capital of the Company amounted to HK\$241.7 million (2017: HK\$241.7 million); and the interest-bearing borrowings of the Group amounted to HK\$46.9 million (2017: HK\$39.1 million), the majority of which was repayable within a period of more than one year but not exceeding two years (2017: majority of which was repayable within one year or on demand).

The management will endeavour to further enhance the Group's financial strengths so as to tackle the net current liabilities of the Group as at 31 March 2018. Cost control measures have already been in place to monitor the day-to-day operational and administrative expenses. The management will continue to closely review the Group's financial resources in a cautious manner and explore opportunities in potential financial institutions financing and equity funding. Apart from the loan capitalizations as disclosed in the Company's announcement dated 5 January 2017, the Company will take proactive actions to improve the liquidity and financial position of the Group by way of equity fund raising exercises including placement of new shares as well as other pre-emptive offers. The Company will closely monitor the market situation and take prompt actions when such opportunities arise. During the year, the Company has raised several loans of a total HK\$68.7 million (2017: HK\$47.8 million) for the Group's daily operation and the mine construction.

In addition to the above measure to improve the liquidity of the Group, the Company also explores way to improve its overall financial position. In particular, the Company has communicated with Daily Loyal Limited, the current holder of the Third Convertible Note, with an aim to deal with such major liability of the Group, including but not limited to the possible conversion of a significant portion of the outstanding Third Convertible Note. The Company believes that such conversion, if happened, will be beneficial to the Company, its shareholders and other stakeholders of the Company (including the holder of the Third Convertible Note) as a whole as the overall gearing of the Group will be improved and the equity base of the Company will be strengthened. The Company may then be able to improve its overall financial position.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group's turnover, expenses, assets and liabilities are denominated in Hong Kong dollars ("HKD"), United States dollars ("USD"), Russia rubles ("RUB") and Korean won ("KRW"). The exchange rates of USD against HKD remained relatively stable during the year under review. Certain expenses of the Group are dominated in RUB and KRW which fluctuated in a relatively greater spread during the year. Therefore, shareholders should be aware that the exchange rate volatility of RUB and KRW against HKD may have favourable or adverse effects on the operating results of the Group.

Taking into consideration of the amount of revenue and expenses involved, the Group at present has no intention to hedge its exposure from foreign currency exchange rate risk involving RUB and KRW. However, the Group will constantly review exchange rate volatility and will consider using financial instruments for hedging when necessary.

PRINCIPAL RISKS AND UNCERTAINTIES

The following is a list of principal risks and uncertainties that are considered to be of significance, as it would have potential significant impacts to the Group's businesses, results of operations and financial conditions. However, this is non-exhaustive as there may be other risks and uncertainties arising from changes in economic and other conditions over time.

- (i) The Group derives a significant portion of its turnover from a few customers and sources a significant portion of its purchases from a few suppliers. Such reliance on a small number of customers and suppliers may materially affect the businesses of the Group, if the Group could not secure continuous supports from them.
- (ii) Significant fluctuations in international coal prices from year to year will cast corresponding significant fluctuations in year end valuations of intangible assets (in relation to mining rights of Lot 1 and Lot 1 Extension of the Group's Russian coal mines) as well as exploration and evaluation assets (in relation to mining rights of Lot 2 of the Group's Russian coal mines), which may have material impacts on the Group's financial results due to the resultant impairment losses or reversal of impairment losses, and also on the Group's total non-current assets.

MANAGEMENT DISCUSSION AND ANALYSIS

- (iii) The coal mining license of Lot 1 will expire on 1 July 2025, and if such coal mining license could not be further extended, the corresponding carrying amount under the intangible assets may need to be written off, and the overall integrated mining plan for Lot 1, Lot 1 Extension and Lot 2 may be affected.
- (iv) The Group's coal mining rights of Lot 1, Lot 1 Extension and Lot 2 are all geographically located in Russia, and such concentration in location may make the Group more sensitive to changes in government policies and regulations in Russia.
- (v) The Company and the Group have get involved in various legal proceedings, and the outcomes of the outstanding legal proceedings are still unknown, since the legal procedures are still in progress.
- (vi) The creditors, lenders, promissory note holder and the Third Convertible Noteholder(s) of the Company may not extend/continuously extend the due dates or the maturity dates of the indebtedness, and the Company may not be able to source the required additional fundings from other lenders and/or from equity financing, which may affect the liquidity and financial position of the Company and the Group.
- (vii) Please refer to "Exposure to Fluctuation in Exchange Rates and Related Hedges" hereinabove for the foreign exchange risks.
- (viii) Please refer to Note 36 to the Financial Statements on pages 121 to 124 for the market risks, credit risks, liquidity risks and other financial risk (if any).

FINANCIAL KEY PERFORMANCE INDICATORS FOR BUSINESS REVIEW

- (i) During the year under review, the Group has diversified to trade a new product (integration module), such new product accounted for approximately 80.0% of the Group's yearly turnover (2017: approximately 70.6% on trading of a new product of paper for newspaper printing).
- (ii) The gross profit ratio (being gross profit to turnover) of trading businesses is 1.3% (2017: 0.9%), which improved slightly from that of last year.
- (iii) As coal production in the Group's Russian coal mines has not yet been commenced during the year, financial key performance indicators for coal mining are not applicable.
- (iv) The Group's additional exploration drillings have been completed during the year with a total depth of approximately 15,230 metres (mid-June 2017: approximately 15,000 metres).
- (v) Since current liabilities of the Group as of 31 March 2018 increased slightly, the current ratio (being current assets to current liabilities) for the year under review dropped to 0.43% (2017: 0.46%).
- (vi) As the total interest-bearing borrowing of the Group as of 31 March 2018 increased, the gearing ratio (being total interest-bearing borrowing to total assets) for the year under review increased to 4.17% (2017: 1.83%).

LITIGATIONS

During the year and up to the date of this report, the Group has been involved in a number of legal proceedings. Details of the litigations are set out in Note 33 to the financial statements.

CAPITAL COMMITMENTS

As at 31 March 2018, the Group had capital commitments in respect of the exploration related contracts of HK\$2.2 million (2017: HK\$8.3 million) and no capital commitments in acquisition of property, plant and equipment (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

The Group had not pledged any of its assets for bank facilities as at 31 March 2018 or 31 March 2017.

SHARE OPTION SCHEMES

The Group has adopted share option scheme whereby directors, employees and consultants of the Group may be granted options to subscribe for the new shares of the Company. Details of the share option scheme are set out in Note 29 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As of 31 March 2018, the Group had approximately 19 (2017: 22) staff in Hong Kong, Russia and Korea. Remuneration policy is reviewed by the management periodically and is determined by reference to industry practice, company performance, and individual qualifications and performance. Remuneration packages comprised salary, commissions and bonuses based on individual performance. Share options may also be granted to eligible employees of the Group. Employees benefit plans provided by the Group include provident fund scheme, medical insurance and subsidised training programmes and seminars.

The remuneration policy and packages for directors and senior management of the Company are determined by the Remuneration Committee of the Company with reference to the prevailing market practices, individual qualifications, time devoted by a director, responsibilities of a director, his performance and contribution, etc. The primary objective of the remuneration policy is to enable the Company to retain and motivate directors. Under the policy, a director is not allowed to approve his own remuneration package. Directors are entitled to directors' fee. Share options (in accordance with the requirements of the Listing Rules) and subsidized continued professional development training may be granted to directors.

REPORT OF THE DIRECTORS

The Board of directors (the “**Board**”) of Siberian Mining Group Company Limited (the “**Company**”) presents their report together with the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the year ended 31 March 2018.

PRINCIPAL ACTIVITIES, SUBSIDIARIES AND BUSINESS REVIEW

The Company engages in investment holding. Its principal subsidiaries engage in holding mining and exploration rights of coal mines in Russia, and trading in the Republic of Korea.

An analysis of the principal activities of the subsidiaries is set out in Note 40 to the financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group’s business, can be found in the Management Discussion and Analysis section set out on pages 6 to 12 of this Annual Report. Such discussion forms part of this Report of the Directors.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 March 2018 and the state of affairs of the Group and the Company as at 31 March 2018 are set out on pages 36 to 129.

The Board does not recommend the payment of any dividend for the year ended 31 March 2018 (2017: Nil).

SEGMENT INFORMATION

An analysis of the Group’s turnover and contribution to result by principal activities and geographical segments of operations for the year ended 31 March 2018 is set out in Note 14 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 130.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 39 to the financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 March 2018, the Company did not have any reserves for distribution (2017: Nil). Under the laws of the Cayman Islands, a company may make distributions to its members out of the contributed surplus account under certain circumstances. In addition, the Company’s share premium account amounted to HK\$1,956,517,000 (2017: HK\$1,956,517,000) may be distributed in the form of fully paid bonus shares.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTE PAYABLES

Details of the movements in the Company’s share capital, share options and convertible note payables are set out in Notes 28, 29 and 24, respectively, to the financial statements.

REPORT OF THE DIRECTORS

DONATION

The Group did not make any charitable donation during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2018.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's two (2017: two) customers accounted for 100% (2017: 100%) of the Group's total turnover for the year. In particular, sales to the largest customer of the Group accounted for approximately 80.6% (2017: 68.4%) of the Group's total turnover for the year.

Purchases from the Group's two (2017: three) suppliers accounted for 100% (2017: 100%) of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 80.7% (2017: 51.3%) of the Group's total purchases for the year.

None of the directors of the Company, their associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**")) or any shareholder (which to the knowledge of the directors of the Company own more than 5% of the Company's issued share capital) had any beneficial interests in all the Group's customers or suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Jo Sang Hee (*Chairman*) (re-designated as executive director on 31 August 2017 and appointed as Chairman on 1 March 2018)

Mr. Ahn Kibaek (appointed on 28 February 2018)

Mr. Shin Min Chul (appointed on 17 January 2018 and resigned on 8 April 2018)

Mr. Su Run Fa (resigned on 6 December 2017)

Mr. Hong Sang Joon (*Chairman*) (resigned on 1 March 2018)

Independent Non-executive Directors

Mr. Kwok Kim Hung Eddie

Mr. Lee Sungwoo (appointed on 31 August 2017)

Ms. Chen Dai (appointed on 29 March 2018)

Mr. Jo Sang Hee (re-designated as executive director on 31 August 2017)

Mr. Lai Han Zhen (resigned on 27 December 2017)

REPORT OF THE DIRECTORS

In accordance with the Company's articles of association, all the newly appointed directors will hold office until the forthcoming annual general meeting and are then eligible offered themselves for re-election. In addition, all directors are required to retire by rotation and, being eligible, offer themselves for re-election.

The Company has received from each of the independent non-executive directors (except Mr. Lai Han Zhen who resigned on 27 December 2017) an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors (except Mr. Lai Han Zhen who resigned on 27 December 2017) are independent.

DISCLOSURES ON CHANGES OF DIRECTOR'S INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Mr. Jo Sang Hee was re-designated from an independent non-executive director to an executive director with effect from 31 August 2017, and immediately following his said re-designation, he resigned as a member of each of the Audit Committee and the Remuneration Committee of the Company also with effect from 31 August 2017. He was appointed as the chairman of the Board and chairman of the Nomination Committee of the Company with effect from 1 March 2018.

Mr. Lee Sungwoo was appointed as an independent non-executive director, and a member of each of the Audit Committee and the Remuneration Committee of the Company with effect from 31 August 2017. He was also appointed as the chairman of the Remuneration Committee of the Company with effect from 27 December 2017. He is currently the chief executive officer of Guardian & Company providing corporate valuation and due diligence, and other consulting services from May 2018.

Mr. Hong Sang Joon was appointed as the first director of a Hong Kong subsidiary of the Company, which has been newly incorporated in November 2017. He resigned as an executive director, the chairman of the Board, the chairman of the Nomination Committee, and Executive President of the Company, and all directorships in the subsidiaries of the Company with effect from 1 March 2018.

Mr. Su Run Fa resigned as an executive director of the Company with effect from 6 December 2017.

Mr. Lai Han Zhen resigned as an independent non-executive director, the chairman of the Remuneration Committee, and a member of each of the Audit Committee and the Nomination Committee of the Company with effect from 27 December 2017.

Mr. Shin Min Chul was appointed as an executive director of the Company with effect from 17 January 2018 and he resigned as an executive director of the Company with effect from 8 April 2018.

Mr. Ahn Kibaek was appointed as an executive director of the Company with effect from 28 February 2018.

Ms. Chen Dai was appointed as an independent non-executive director, a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company with effect from 29 March 2018.

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company has a service contract with the Company or any of its subsidiary companies which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTOR'S INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as the end of the year or at any time during the year.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Jo Sang Hee ("Mr. Jo"), aged 51, was appointed as an independent non-executive director of the Company on 31 December 2015 and he was re-designated to an executive director with effect from 31 August 2017, and immediately following his said re-designation, he resigned as a member of each of the Audit Committee and the Remuneration Committee of the Company. He has been appointed as the chairman of the Board and chairman of the Nomination Committee of the Company since 1 March 2018. He holds a Bachelor Degree of Metallurgical Engineering from Inha Technical College, Korea. He is currently the president of Artis Investment Co. Ltd. Before joining Artis Investment Co. Ltd. in November 2015, he was the managing director of KC&Partners from 2012 to 2015, and the managing director of Haksan Construction Co. Ltd. from 2007 to 2011, and the president of Impact Holdings Co. Ltd. from 2005 to 2007. Mr. Jo has experience in various industries, especially in investment and management. He has extensive knowledge of investment with 10 years working experience as a top management.

Mr. Ahn Kibaek ("Mr. Ahn"), aged 43, was appointed as an executive director of the Company on 28 February 2018. He holds a Bachelor Degree of Department of Law from Chonnam University (Gwangju, Korea). He currently works in EHWA Technologies Information Co., Ltd.'s strategic management division as a senior manager starting from August 2015. Before joining EHWA Technologies Information Co., Ltd., he was the team leader at legal department of Jayjun Cosmetic Co., Ltd. from April 2015 to July 2015. Furthermore, from May 2011 to April 2015, he was freelancer as legal advisor to companies that need him. He has strong knowledge of legal, investment, restructuring and strategic planning due to many years of work experiences and study.

Mr. Shin Min Chul ("Mr. Shin"), aged 46, was previously appointed as an executive director of the Company for about three years from October 2009 to August 2012. He was appointed again as an executive director of the Company on 17 January 2018 and he resigned as an executive director of the Company on 8 April 2018. He started his career as a civil and environmental engineer since 1999. He worked for various companies and co-founded and run several companies in Korea and other countries. After resignation as an executive director of the Company in August 2012, he has been the co-founder and partner of Seseung IB LLC, a firm providing financing advisory and strategic consulting services, from January 2013 to January 2018. After pursuing his Master of Business Administration degree in 2005, he focused on private equity practice including major merger and acquisition projects in the Asia region and services for various global private equity funds. Mr. Shin holds a Bachelor of Science degree in urban engineering and a Master of Science degree in environmental engineering from Seoul National University, Korea. He also holds a Master of Business Administration degree from Kellogg School of Management, Northwestern University, United States.

Mr. Su Run Fa ("Mr. Su"), aged 50, was appointed as an executive director of the Company on 5 February 2014 and he resigned as an executive director of the Company on 6 December 2017. He graduated from Xi'an Jiaotong University, China with a Bachelor Administration Degree in 2000 and received his Master of Business Administration Degree from University of International Business and Economics, China in 2009. He was a Representative of the 14th People's Congress of Dongguan City. Mr. Su has over 21 years' experience in managing factories in Dongguan, China.

REPORT OF THE DIRECTORS

Mr. Hong Sang Joon (“Mr. Hong”), aged 49, was appointed as an executive director of the Company on 5 February 2014. He was also appointed as the executive vice president of the Company in February 2014 and he has been re-designated as the executive president of the Company in March 2016. In addition, he has been appointed as the chairman of the Board and the chairman of the Nomination Committee of the Company on 31 December 2015, and a director of certain subsidiary companies of the Company. He resigned as an executive director, the chairman of the Board, the chairman of the Nomination Committee, and executive president of the Company, and all directorships in the subsidiaries of the Company on 1 March 2018. Mr. Hong obtained his bachelor degree in Chinese language and Chinese literature, minoring in business administration from Yonsei University in Korea, and a master degree in business administration from The University of Hong Kong. He is a CFA Charterholder, a Certified FRM, and a U.S. CPA for public practice licensed by Washington State Board of Accountancy in the U.S.A., and he is a regular member of CFA Institute, The Hong Kong Society of Financial Analysts, CFA Korea Society, Global Association of Risk Professionals, and American Institute of CPAs. He had been appointed as an executive director of Forebase International Holdings Limited (stock code: 2310) from 20 January 2012 to 27 June 2017, which is listed on the Main Board of the Stock Exchange. Mr. Hong has over 20 years of experience in investment, restructuring, strategic planning, corporate finance, and financial management and control.

Independent Non-executive Directors

Mr. Kwok Kim Hung Eddie (“Mr. Kwok”), aged 46, was appointed as an independent non-executive director of the Company on 14 February 2014. He is currently also the chairman of the Audit Committee, a member of the Nomination Committee and the Remuneration Committee of the Company. Mr. Kwok currently has been providing corporate advising services as professional accountant in Hong Kong. He has also been appointed as an independent non-executive director of Ningbo WanHao Holdings Company Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), since June 2012. He was previously appointed as financial controller company secretary and authorised representative of Forebase International Holdings Limited, a company listed on the Main Board of the Stock Exchange. Mr. Kwok is a member of the Hong Kong Institute of Certified Public Accountants. He is also an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. He holds a Master of Professional Accounting Degree from the Hong Kong Polytechnic University, a Master of Corporate Governance Degree from the Open University of Hong Kong and a Honours Diploma in Accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University).

Mr. LEE Sungwoo (“Mr. Lee”), aged 31, was appointed as an independent non-executive director of the Company, and a member of each of the Audit Committee and the Remuneration Committee of the Company on 31 August 2017. He was also appointed as the chairman of the Remuneration Committee of the Company on 27 December 2017. He holds a Bachelor Degree of Accounting and Business Administration from KYUNGHEE University (Seoul, Korea). He is currently the chief executive officer of Guardian & Company providing corporate valuation and due diligence, and other consulting services. Before joining Guardian & Company in May 2018, he was a partner of SEJUNG LLC providing corporate audit of listed and unlisted companies, tax advisory services, corporate valuation and due diligence, and other consulting services from April 2017 to May 2018, the accounting team leader of Dain Engineering and Construction Co., Ltd from October 2016 to March 2017, the manager of Samvit Accounting Firm from April 2015 to October 2015, and the senior associate of Samil Price Waterhouse Coopers from December 2012 to April 2015. Mr. Lee possesses core competencies in corporate audits, tax consultation, valuation and corporate consultation.

Ms. Chen Dai (“Ms. Chen”), aged 39, was appointed as an independent non-executive director of the Company on 29 March 2018. She was also appointed as a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company on 29 March 2018. She holds a Bachelor’s Degree of Business Administration and Financial Management from Shanghai University of Finance and Economics (Shanghai, China). She is currently the chief operating officer of Teng Wei Information Consulting Co., Ltd. providing corporate consultancy to foreign investment companies and Chinese companies. Before joining Teng Wei Information Consulting Co., Ltd. in March 2008, she had been the senior accountant in Shanghai Beston Trading Co., Ltd. from March 2000 to March 2004. Ms. Chen possesses core competencies in corporate tax consultation and corporate consultation.

REPORT OF THE DIRECTORS

Mr. Lai Han Zhen (“Mr. Lai”), aged 55, was appointed as an independent non-executive director of the Company on 14 February 2014 and he was also appointed as the chairman of the Remuneration Committee, and a member of each of the Audit Committee and the Nomination Committee of the Company on 18 February 2014. He resigned as an independent non-executive director, the chairman of the Remuneration Committee, and a member of each of the Audit Committee and the Nomination Committee of the Company on 27 December 2017. He graduated from Shenzhen University, China with a Bachelor’s of Business Administration degree in 1991. He then received his Master of Laws from both Chinese University of Political Science and Law, China, and Macau University of Science and Technology, Macau in 2004 and 2007, respectively, and also received his Doctorate of Laws in 2012 from Macau University of Science and Technology, Macau. Mr. Lai is a director of three different mining companies in Fujian Province, China.

Senior Management

Mr. Wong Wing Cheong (“Mr. Wong”), aged 54, joined the Company as the chief financial officer in May 2011. He was appointed as the company secretary of the Company on 1 August 2012 and he resigned as the company secretary of the Company on 28 February 2018. He graduated from the University of Hong Kong with a Bachelor of Social Sciences degree in Management and Economics, and received his Master of Business Administration degree in Investment and Finance from the University of Hull, United Kingdom. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators, and the Hong Kong Institute of Company Secretaries. Mr. Wong has extensive experience in accounting, corporate finance, and mergers and acquisition projects of listed companies.

DIRECTORS’ INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2018, none of the directors or any of their associates or chief executives of the Company (as defined in the Listing Rules) had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)), which are required to be notified to the Company and the Stock Exchange pursuant to SFO (including interests which they are taken or deemed to have under SFO) or which are, pursuant to Section 352 of the SFO, entered in the register referred to therein or, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

CONNECTED TRANSACTION

The Company did not (i) have any outstanding continuing connected transaction or (ii) enter into any connected transaction for the year ended 31 March 2018.

None of the related party transactions set out in Note 32 to the financial statements constitutes connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme in Note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire such right in any other body corporate.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

Pursuant to the articles of association of the Company, 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 Laws of the Cayman Islands) which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has also arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Company.

SHARE OPTION SCHEME

Pursuant to the share option scheme approved and adopted by the Company on 19 October 2002 (the "Old Scheme"), share options were granted to subscribe for shares in the Company in accordance with the terms of the Old Scheme. At the annual general meeting of the Company held on 31 August 2012, the shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme") and termination of the Old Scheme. The New Scheme is in line with the prevailing requirements of Chapter 17 of the Listing Rules in relation to the share option schemes. Upon termination of the Old Scheme, no further options may be granted but in all other respects the provisions of the Old Scheme shall remain in full force and effect. The outstanding options granted under the Old Scheme shall continue to be valid and exercisable in accordance with the terms of the Old Scheme. Further details of the Old Scheme and the New Scheme are set out in Note 29 to the financial statements.

During the year, details of the movements in the Company's share options under the Old Scheme and outstanding were:

| Name or category of participant | Number of share options | | | Date of grant of share options | Exercise period of share options | Exercise price of share options* HK\$ |
|---|-------------------------|-----------------------|---------------------|--------------------------------|----------------------------------|--|
| | As at 1 April 2017 | Lapse during the year | As at 31 March 2018 | | | |
| Employees and consultants other than directors | | | | | | |
| — In aggregate | 440,000 | — | 440,000 | 30/01/2012 | 30/01/2012 to 29/01/2022 | 0.355 |
| Total | 440,000 | — | 440,000 | | | |

* The number of issuable shares and the exercise price of the share options are subject to adjustment in the case of capitalization issue, rights issue, sub-division or consolidation of the Company's shares or reduction of capital of the Company

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2018, the register of interests in shares and short positions required to be kept by the Company under Section 336 of the SFO showed that the following persons (other than the directors or chief executives of the Company) had disclosed to the Stock Exchange and/or the Company an interest of 5% or more of the nominal value of the issued ordinary shares that carry a right to vote in all circumstances at general meetings of the Company.

(i) Long position in shares of HK\$0.20 each in the Company

| Name of shareholders | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|------------------------------------|---------------------------------------|---|
| Pioneer Centre Limited (now known as "Space Hong Kong Enterprise Limited") | Beneficial owner | 162,505,317 | 13.45% |
| Lucrezia Limited (Note 1) | Beneficial owner | 90,030,768 | 7.45% |
| Token Century Limited | Beneficial owner | 84,000,000 | 6.95% |
| Kim Wuju | Beneficial owner | 74,400,000 | 6.16% |
| Yang Xiaolian (Note 1) | Interest in controlled corporation | 90,030,768 | 7.45% |

Note 1: Yang Xiaolian holds 100% interest in Lucrezia Limited. By virtue of the SFO, Yang Xiaolian is deemed to be interested in these 90,030,768 shares which Lucrezia Limited has beneficial interest in.

(ii) Long position in underlying shares of HK\$0.20 each in the Company

| Name of shareholders | Capacity | Number of underlying shares held | Percentage of the shareholding |
|----------------------|----------|----------------------------------|--------------------------------|
| N/A | N/A | N/A | N/A |

Save as disclosed above, no other party was recorded in the register of interests in shares and short positions kept pursuant to section 336 of SFO as having an interest in 5% or more of the nominal value of the issued ordinary shares that carry a right to vote in all circumstances at general meetings of the Company.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 23 to 30 to the annual report.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to contributing to the sustainability of the environment and maintaining a good standard of corporate social governance essential for bringing a framework for motivating employees to contribute to our community.

The Group has made continuous efforts in promoting green measures and awareness in daily business operations. The principles of recycling and reducing will always be encouraged to adhere to as much as possible, such as implementing green office practices of double-sided printing and copying, setting up recycling bins and switching off idle lightings and regulating air-conditioning in different zoning.

WORKING CONDITIONS

The Company has adopted the board diversity policy in accordance with the requirements set up in the Corporate Governance Code, and recognizes the board diversity is one of the essential elements contributing to the sustainable development of the Company. The Group always encourages its employees to participate external seminars and other professional development trainings so as to keep abreast of the changing business environment.

HEALTH AND SAFETY

The Group strives to provide a healthy and safe working environment to its employees, and will constantly evaluate and upgrade tools, office and information technology equipment as and when needed.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company is committed to constantly monitor the adherence and compliance with all significant legal and regulatory requirements essential to its business operations. As far as the Company is aware and to the best of the knowledge, information and belief of the Company, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business operations of the Group.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Being people-oriented, the Group ensures all employees are reasonably remunerated in line with the prevailing market conditions, continues to encourage development training, and provides favourable career advancement opportunities for its employees.

The Group has always paid good attention to and committed to maintaining a good working relationship with its suppliers and customers, which in the long term will create good value for the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company is in the process of finalizing its Environmental, Social and Governance Report for the year ended 31 March 2018, and will be available on websites of the Stock Exchange and the Company in due course after the publication of the 2018 Annual Report.

SIGNIFICANT EVENTS AFTER THE REPORTING YEAR

Details of the significant events after the reporting year of the Group are set out in Note 41 to the financial statements.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this report, there is sufficient public float of more than 25% of the issued share capital of the Company as required under the Listing Rules.

CHANGE IN AUDITOR IN ANY OF THE PRECEDING THREE YEARS

As announced by the Company on 15 April 2014, Crowe Horwath (HK) CPA Limited (“**Crowe Horwath**”) resigned as auditor of the Group with effect from 11 April 2014, because Crowe Horwath could not reach a consensus on the audit fee with the Company for the year ended 31 March 2013, and Crowe Horwath arrived at this decision after carefully considering the fee level of the engagement commensurate with the amount of time required at various levels of responsibility. The Company proposed, with the recommendation of the Audit Committee, to appoint JH CPA Alliance Limited as the replacement auditor of the Group following the resignation of Crowe Horwath, subject to the approval of the shareholders of the Company at an extraordinary general meeting (the “**EGM**”).

As announced by the Company on 8 May 2014, the appointment of JH CPA Alliance Limited as the auditor of the Group to hold office until the conclusion of the next annual general meeting of the Company was approved by the shareholders at the EGM dated 8 May 2014.

AUDITOR

The financial statements have been audited by JH CPA Alliance Limited who retires and, being eligible, offer itself for re-appointment. A resolution for re-appointment of JH CPA Alliance Limited as auditor of the Group will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Jo Sang Hee

Chairman

Hong Kong, 29 June 2018

CORPORATE GOVERNANCE REPORT

INTRODUCTION

Maintaining high standards of business ethics and corporate governance practices has always been one of the Company's main goals. The corporate governance principles of the Company emphasize a quality board, sound internal control, transparency and accountability to all shareholders. This report describes its corporate governance practices, explains the applications of the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules.

CORPORATE GOVERNANCE PRACTICES

During the year under review, the Company has complied with the CG Code except for the deviations as described below:

- (i) Under code provision A.6.7 of the CG Code, independent non-executive Directors ("INEDs") should attend the general meetings and develop a balanced understanding of the views of shareholders. However, two of the then INEDs of the Company (Mr. Lai Han Zhen and Mr. Jo Sang Hee) were unable to attend the 2017 annual general meeting of the Company held on 30 August 2017 due to other overseas commitments or other prior business engagements.
- (ii) Under code provision A.5.1 of the CG Code, the Nomination Committee should comprise of a majority of INEDs. However, following the resignation of Mr. Lai Han Zhen (the then INED) with effect from 27 December 2017, the Nomination Committee of the Company no longer comprised of a majority of INEDs. Upon the appointment of a new INED (Ms. Chen Dai) as a member of the Nomination Committee on 29 March 2018, the Company has then complied with code provision A.5.1 of the CG Code.

NON-COMPLIANCE WITH THE PROVISIONS OF THE LISTING RULES

During the year under review, the Company has the following non-compliance with provisions of the Listing Rules:

- (i) Following the resignation of Mr. Lai Han Zhen (the then INED) with effect from 27 December 2017, the Board was unable to fulfil the requirement of having at least three INEDs under Rule 3.10(1) and three members on the Audit Committee under Rule 3.21 of the Listing Rules. Upon the appointment of a new INED (Ms. Chen Dai) on 29 March 2018, the Company has then complied with Rule 3.10(1) and Rule 3.21 of the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiries of all the directors, all directors (except certain directors who had resigned from December 2017 to April 2018, namely, Mr. Su Run Fa, Mr. Lai Han Zhen and Mr. Shin Min Chul) confirmed that they have complied with the required standards as set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the year under review.

BOARD OF DIRECTORS

As at 31 March 2018, the Board comprises five directors, of whom two are executive directors and three are INEDs. After the resignation of an INED (Mr. Lai Han Zhen) on 27 December 2017 and before the appointment of a new INED (Ms. Chen Dai) on 29 March 2018, the Board was having only two INEDs. The Board believes the majority of the Board members are INEDs (except during the period from 27 December 2017 to 28 March 2018), the composition of the Board is adequate to provide checks and balances that safeguard the interests of shareholders and the Group.

The INEDs provide the Group with different expertise, skills and experience. Their participation in board meetings could bring independent judgement on issues relating to the Group's strategy, internal control and performance to ensure the interests of the shareholders are taken into account.

CORPORATE GOVERNANCE REPORT

The Company has received from each of the INEDs (except Mr. Lai Han Zhen) an annual confirmation of their independence and considers that all the INEDs (except Mr. Lai Han Zhen) are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The Company has set out the respective functions and responsibilities reserved to the Board and those delegated to management. The Board delegated day-to-day operations of the Group to executive directors and senior management while reserving certain key matters for its approval. The Board is responsible for approving and monitoring the Company's overall strategies and policies, overseeing the financial position of the Group, approving business plans, evaluating the performance of the Company and supervising the performance of the management.

Decisions of the Board are communicated to the management through executive directors who have attended Board meetings.

The members of the Board during the year under review were:

Executive Directors:

Jo Sang Hee (*Chairman*) (re-designated as executive director on 31 August 2017 and appointed as Chairman on 1 March 2018)

Ahn Kibaek (appointed on 28 February 2018)

Shin Min Chul (appointed on 17 January 2018 and resigned on 8 April 2018)

Su Run Fa (resigned on 6 December 2017)

Hong Sang Joon (*Chairman*) (resigned on 1 March 2018)

Independent Non-Executive Directors:

Kwok Kim Hung Eddie

Lee Sungwoo (appointed on 31 August 2017)

Chen Dai (appointed on 29 March 2018)

Jo Sang Hee (re-designated as executive director on 31 August 2017)

Lai Han Zhen (resigned on 27 December 2017)

Brief biographical details of the directors are set out in the "Biographical Details of Directors and Senior Management" section in the Report of the Directors on pages 16 to 18 of this annual report. To the best knowledge of the Company, there are no relationships (including financial, business, family or other material relationships) among the directors.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, in addition to the meetings for reviewing and approving the Group's annual and interim results.

During the year under review, the Board had reviewed the policies and practices on corporate governance of the Company; monitored the continuous professional development trainings of the directors, the company secretary and members of the senior management; monitored the policies and practices of the Company on compliance with legal and regulatory requirements; monitored the compliance of the Model Code applicable to the directors; as well as reviewed the compliance of the Company with the CG Code and the disclosures in the Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

During the year under review, the Company held 17 Board meetings and one annual general meeting. Details of directors attendance records are as follows:

| Name of Directors | Attendance | |
|---|---------------|------------------------|
| | Board Meeting | Annual General Meeting |
| Executive Directors | | |
| Jo Sang Hee (re-designated on 31 August 2017) | 11/11 | n/a |
| Ahn Kibaek (appointed on 28 February 2018) | 1/1 | n/a |
| Shin Min Chul (appointed on 17 January 2018) | 0/2 | n/a |
| Su Run Fa (resigned on 6 December 2017) | 6/9 | 1/1 |
| Hong Sang Joon (resigned on 1 March 2018) | 17/17 | 1/1 |
| Independent Non-executive Directors | | |
| Kwok Kim Hung Eddie | 16/16 | 1/1 |
| Lee Sungwoo (appointed on 31 August 2017) | 9/9 | n/a |
| Chen Dai (appointed on 29 March 2018) | n/a | n/a |
| Jo Sang Hee (re-designated on 31 August 2017) | 6/7 | 0/1 |
| Lai Han Zhen (resigned on 27 December 2017) | 6/12 | 0/1 |

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT

All directors are committed to participating in continuous professional development under code provision A.6.5 of the CG Code. Directors are provided with timely updates on changes in laws and compliance issues relevant to the Group. The Company has also provided funding to encourage its directors to participate in professional development courses and seminars to develop and refresh their knowledge and skills.

During the year ended 31 March 2018, the directors' participation in various continuous professional program is summarised as below:

| Name of Directors | Attending training course/seminar | Reading materials |
|---|-----------------------------------|-------------------|
| Executive Directors | | |
| Jo Sang Hee (re-designated on 31 August 2017) | ✓ | ✓ |
| Ahn Kibaek (appointed on 28 February 2018) | ✓ | ✓ |
| Hong Sang Joon (resigned on 1 March 2018) | ✓ | ✓ |
| Shin Min Chul (appointed on 17 January 2018) (Note 1) | — | — |
| Su Run Fa (resigned on 6 December 2017) (Note 1) | — | — |
| Independent Non-executive Directors | | |
| Kwok Kim Hung Eddie | ✓ | ✓ |
| Lee Sungwoo (appointed on 31 August 2017) | ✓ | ✓ |
| Chen Dai (appointed on 29 March 2018) (Note 2) | n/a | n/a |
| Jo Sang Hee (re-designated on 31 August 2017) | ✓ | ✓ |
| Lai Han Zhen (resigned on 27 December 2017) (Note 1) | — | — |

CORPORATE GOVERNANCE REPORT

Note 1: The Company has not received records of continuous professional development from Shin Min Chul, Su Run Fa and Lai Han Zhen, and thus has no knowledge of their continuous professional development.

Note 2: Ms. Chen Dai was appointed on 29 March 2018, just two days before the year end date of 31 March 2018, thus given such short duration, there was no records of continuous professional development.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy to achieve board diversity through the consideration of a number of factors and measurable objectives, including but not limited to gender, age, cultural background, educational background, skills, knowledge and professional experience. All Board appointments will be based on merit, and candidates will be measured against objective criteria, with due regard for the benefits of diversity on the Board. The Nomination Committee has the delegated responsibilities to monitor the implementation and review the board diversity policy and report to the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board is responsible for the appointment of any potential new directors and the nomination of directors for re-election by shareholders at the annual general meeting of the Company. In accordance with the Articles, the directors shall have the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy on the Board or as an addition to the existing Board, whom is subject to retirement and re-election at the first annual general meeting after his/her appointment and shall then be eligible for re-election. Furthermore, every director shall retire from office no later than the third annual general meeting after he/she was last elected or re-elected.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company was established in December 2005.

From 1 April 2017 to 30 August 2017, the Remuneration Committee consisted of three INEDs. Mr. Lai Han Zhen was the chairman and the two other members were Mr. Jo Sang Hee and Mr. Kwok Kim Hung Eddie.

From 31 August 2017 to 26 December 2017, Mr. Lai Han Zhen was the chairman and the two other members were Mr. Lee Sungwoo and Mr. Kwok Kim Hung Eddie.

From 27 December 2017 to 28 March 2018, Mr. Lee Sungwoo was the chairman and the other member was Mr. Kwok Kim Hung Eddie.

From 29 March 2018 to 31 March 2018, Mr. Lee Sungwoo was the chairman and the two other members were Ms. Chen Dai and Mr. Kwok Kim Hung Eddie.

The Remuneration Committee is responsible for formulating and recommending the Board in relation to the remuneration policy, determining the remuneration of directors and members of the senior management of the Company, and reviewing and making recommendations on the Company's share option scheme, other compensation-related issues and performance based remuneration.

The main works performed by the Remuneration Committee during the year included review of the remuneration policy of the Company and the remuneration of directors for the coming year.

CORPORATE GOVERNANCE REPORT

Individual attendance of each remuneration committee member during the year under review is as follows:

| Members | Attendance |
|--|------------|
| Lee Sungwoo (<i>Chairman</i>) (appointed on 31 August 2017 and appointed as chairman on 27 December 2017) | 3/3 |
| Kwok Kim Hung Eddie | 5/5 |
| Chen Dai (appointed on 29 March 2018) | n/a |
| Jo Sang Hee (resigned on 31 August 2017) | 2/2 |
| Lai Han Zhen (<i>Chairman</i>) (resigned 27 December 2017) | 2/2 |

The Remuneration Committee is provided with resources enabling it to discharge its duties including access to relevant and timely information, support of independent professional advice if and when necessary. Regular meetings of the Remuneration Committee will be held to discuss remuneration and compensation related issues.

AUDIT COMMITTEE

From 1 April 2017 to 30 August 2017, the Audit Committee of the Company consisted of three INEDs, chaired by Mr. Kwok Kim Hung Eddie and the other members are Mr. Jo Sang Hee and Mr. Lai Han Zhen.

From 31 August 2017 to 26 December 2017, Mr. Kwok Kim Hung Eddie was the chairman and the two other members were Mr. Lai Han Zhen and Mr. Lee Sungwoo.

From 27 December 2017 to 28 March 2018, Mr. Kwok Kim Hung Eddie was the chairman and the other member was Mr. Lee Sungwoo.

From 29 March 2018 to 31 March 2018, Mr. Kwok Kim Hung Eddie was the chairman and the two other members were Ms. Chen Dai and Mr. Lee Sungwoo.

The Committee is responsible for recommending the appointment and re-appointment of external auditor, reviewing the Group's financial information and overseeing the Group's financial reporting system and internal control procedures. It is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. The management of the Company provides the Audit Committee with all relevant information the Committee needs for it to discharge its responsibilities.

The Audit Committee meets regularly to review financial reporting and internal control matters and has unrestricted access to the support of both the Company's management and auditors.

The Audit Committee held six meetings during the year under review, in which the Audit Committee reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters so as to ensure that an effective control environment is maintained.

The main works performed by the Audit Committee during the year included review of the auditor's audit plan, the review of the annual financial statements for the year ended 31 March 2017 and interim financial statements for the six months ended 30 September 2017 with recommendations to the board for approval. It had also reviewed the adequacy and effectiveness of internal control system, including the internal control review report, and recommended the appointment and re-appointment of the auditor. The Audit Committee had also reviewed the audited consolidated results of the Company for the year ended 31 March 2018, including the accounting principles and practice adopted by the Group and recommended to the board for consideration.

CORPORATE GOVERNANCE REPORT

Individual attendance of each audit committee member during the year under review is as follows:

| Members | Attendance |
|---|------------|
| Kwok Kim Hung Eddie (<i>Chairman</i>) | 6/6 |
| Lee Sungwoo (appointed on 31 August 2017) | 3/3 |
| Chen Dai (appointed on 29 March 2018) | n/a |
| Jo Sang Hee (resigned on 31 August 2017) | 3/3 |
| Lai Han Zhen (resigned 27 December 2017) | 4/6 |

After the resignation of an INED (Mr. Lai Han Zhen) on 27 December 2017 and before the appointment of a new INED (Ms. Chen Dai) on 29 March 2018, the Audit Committee was having only two INEDs.

Pursuant to the Rule 3.21 of the Listing Rules, the Audit Committee comprises three members who are INEDs (except for the period from 27 December 2017 to 28 March 2018) and one of them possesses appropriate professional qualifications or accounting or related financial management expertise.

NOMINATION COMMITTEE

The Nomination Committee of the Company was established in March 2012.

From 1 April 2017 to 26 December 2017, the chairman of the Nomination Committee was Mr. Hong Sang Joon and other members included two INEDs, namely Mr. Kwok Kim Hung Eddie and Mr. Lai Han Zhen.

From 27 December 2017 to 28 February 2018, the chairman of the Nomination Committee was Mr. Hong Sang Joon and the other member was Mr. Kwok Kim Hung Eddie (an INED).

From 1 March 2018 to 28 March 2018, the chairman of the Nomination Committee was Mr. Jo Sang Hee and other member was Mr. Kwok Kim Hung Eddie (an INED).

From 29 March 2018 to 31 March 2018, the chairman of the Nomination Committee was Mr. Jo Sang Hee and the other two members were Ms. Chen Dai (an INED) and Mr. Kwok Kim Hung Eddie (an INED).

The Nomination Committee is responsible for reviewing and recommending the structure, size and composition of the Board to complement the Company's corporate strategy, identifying suitably qualified individuals to become board members and assessing the independence of INEDs. It is also responsible for recommending the appointment, re-appointment and removal of directors and succession planning of directors; monitoring the implementation and reviewing the board diversity policy and ensuring at least one INED who sit in the Audit Committee has professional qualifications in accounting and financial management.

The main works performed by the Nomination Committee during the year included review of the structure, size and composition of the board, and making recommendations on the re-appointment of directors.

After the resignation of an INED (Mr. Lai Han Zhen) on 27 December 2017 and before the appointment of a new INED (Ms. Chen Dai) on 29 March 2018, the Nomination Committee was having only one INED, that is, it no longer comprised of a majority of INEDs within the period from 27 December 2017 to 28 March 2018.

CORPORATE GOVERNANCE REPORT

Individual attendance of each nomination committee member during the year under review is as follows:

| Members | Attendance |
|---|------------|
| Jo Sang Hee (<i>Chairman</i>) (appointed on 1 March 2018) | 1/1 |
| Kwok Kim Hung Eddie | 5/5 |
| Chen Dai (appointed on 29 March 2018) | n/a |
| Lai Han Zhen (resigned 27 December 2017) | 2/2 |
| Hong Sang Joon (<i>Chairman</i>) (resigned on 1 March 2018) | 4/4 |

AUDITOR'S REMUNERATION

During the year under review, total auditor's remuneration charged in relation to audit and non-audit services of the Group were as follows:

| Nature of services | HK\$ |
|------------------------------------|-----------|
| Review fee for interim results | 175,000 |
| Audit fee for annual results | 1,650,000 |
| Total audit and non-audit services | 1,825,000 |

ACCOUNTABILITY AND INTERNAL CONTROL

The Board acknowledges that they are responsible for (i) preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Group, and (ii) presenting a clear, balanced and understandable assessment of the Group's performance and prospects in the Company's annual report and interim report, inside information announcements and other financial disclosures required under the Listing Rules and such other matters as the regulators may request. The Board is not aware of any material uncertainties relating to the events or condition that might cast doubt upon the Company's ability to continue as a going concern. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis.

The Board has overall responsibility for monitoring the internal control of the Group and reviewing its effectiveness. Policies and procedures are in place to ensure that assets are adequately protected against unauthorized use or disposal and that the interests of shareholders are safeguarded. The systems in place are designed to manage rather than eliminate the risks of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

To enable the Company to discharge its annual review responsibilities pursuant to the code provision of the CG Code, the Company has reviewed the need for an internal audit function and considered it appropriate to adopt the practice of outsourcing the internal audit functions. Accordingly, for the year under review, the Company engaged an external professional certified public accountants firm (the "**Professional CPA Firm**") to provide internal audit services to the Group.

The Professional CPA Firm formulated the annual internal audit plan and procedures, conducted yearly independent reviews by rotation on the operations of the Group to identify any material irregularities and significant risks, developed action plans and made recommendations to address risks and key findings (where applicable).

CORPORATE GOVERNANCE REPORT

During the year ended 31 March 2018, the Board reviewed and ensured that the internal control process has been properly carried out and experience of staff of the Group's accounting and financial reporting were maintained properly. The Board satisfies that, given the size and activities of the Company, adequate internal control systems have been established and considers continuing reviews of internal controls will be undertaken to ensure its adequacy and effectiveness.

COMPANY SECRETARY

Mr. Wong Wing Cheong was appointed as the company secretary of the Company on 1 August 2012 and he resigned as the company secretary of the Company on 28 February 2018. He has taken no less than 15 hours of relevant training as required by the Listing Rules.

SHAREHOLDER RIGHTS

According to Article 58 of the Company's articles of association, any one or more members of the Company may request for an extraordinary general meeting to be convened upon depositing a written requisition to the Board or the Secretary of the Company specifying the objects of the meeting and signed by the requisitionist(s), provided that as at the date of deposit of the requisition, such requisitionist(s) hold not less than one-tenth of the paid-up capital of the Company which carries the right of voting at a general meeting of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene an extraordinary general meeting, the requisitionist(s) themselves may convene an extraordinary general meeting in the same manner, as nearly as possible, as that in which meeting may be convened by the Board provided that any meeting so convened shall not be held after the expiration of two months from the date of deposit of the requisition.

The same procedure also applies to any proposal to be tabled at general meetings for adoption.

The shareholders and investors are also welcome to share their views and suggestions by contacting the Company through the following methods:

By telephone: (852) 2511 8999
By fax: (852) 2511 8711
By email: investor@smg.com.hk

CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the financial year under review.

INVESTOR RELATIONS

To foster effective communications, the Company provided all necessary information to its shareholders in its annual report, interim report and announcements. The Board hosts general meetings to meet the shareholders so as to ensure that the shareholders' view is communicated to the Board. The Board will make efforts to attend the annual general meetings so that they could communicate with the shareholders and answer their questions.

INDEPENDENT AUDITOR'S REPORT



JH CPA Alliance Limited

晉華會計師事務所有限公司

Certified Public Accountants

TO THE SHAREHOLDERS OF SIBERIAN MINING GROUP COMPANY LIMITED

(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Siberian Mining Group Company Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 36 to 129, which comprise the consolidated statement of financial position as at 31 March 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including the summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2018 and of their financial performance and 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN BASIS

During the year ended 31 March 2018, the Group incurred a loss attributable to owners of the Group of HK\$509,455,000 and, as at 31 March 2018, the Group had net current liabilities of approximately HK\$3,609,411,000 and net liabilities of approximately HK\$909,038,000. These conditions, along with other matters as set forth in Note 2(b) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The Group is in the progress of implementing various measures to improve its liquidity. On the basis that all these measures could be successfully implemented, the Directors are of the view that the Group will have sufficient working capital to meet its financial obligations as and when they fall due and, accordingly, the consolidated financial statements have been prepared on a going concern basis. Our opinion is not qualified in respect of this matter.

Also, we draw attention to Note 33 to the consolidated financial statements which describes the uncertainty related to the outcome of the lawsuits filed against the Group. Our opinion is not qualified in respect of this matter.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the 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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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.

The key audit matter

Exploration and evaluation assets & Other intangible assets – mining right

The Group tested the amount of exploration and evaluation assets and other intangible assets for impairment. These impairment tests are significant to our audit because the balance of exploration and evaluation assets and other intangible assets of approximately HK\$2,331,014,000 and HK\$522,142,000 as at 31 March 2018 respectively are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

The accounting policies, significant accounting judgements and estimates and disclosures for exploration and evaluation assets and other intangible assets are included in notes 16 & 17 to the consolidated financial statements.

How the matter was addressed in our audit

Our audit procedures included, among others:

- Assessing the competence, independence and integrity of the external valuer engaged by client;
- Obtaining the external valuation reports and discuss with the external valuer and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;
- We engaged a second external expert ourselves to help us to assess the work of the client's valuer;
- Assessing the competence, independence and integrity of the second external expert engaged by us;
- Obtaining the reports from the second external expert and discuss with them on the reasonableness of the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model adopted by client's valuer;
- Assessing the reasonableness of the key assumptions;
- Checking key assumptions and input data in the valuation model to supporting evidence;
- Assessing the arithmetical accuracy of fair value less costs of disposal as test for impairments; and
- Checking the parameters used against supporting evidence.

INDEPENDENT AUDITOR'S REPORT

Accounting for convertible note

In prior year, the Third Convertible Note with a principal amount of US\$431,190,000 which were initially included in the statement of financial position as liability component and derivative component. The liability component was subsequently measured at amortised cost using the effective interest rate method and the derivative component were accounted for as derivative financial liabilities which were measured at fair value with changes in fair value recognised in profit or loss.

The Group is required to reassess the fair value of the derivative component at the end of each reporting period. The valuation of the derivative component is based on a valuation model with inputs including discount rates and expected share price volatility. We focused on this area because of the significant judgement involved in determining these inputs of the fair value of the derivative component. Management engaged an external valuation specialist to perform the valuation of the convertible note.

The accounting policies, significant accounting judgements and estimates and disclosures for exploration and evaluation assets and other intangible assets are included in notes 24 to the consolidated financial statements.

Our audit procedures included, among others:

- Assessing the competence, independence and integrity of the external valuer engaged by client;
- Obtaining the external valuation reports and discuss with the external valuer and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;
- We engaged a second external expert ourselves to help us to assess the work of the client's valuer;
- Assessing the competence, independence and integrity of the second external expert engaged by us;
- Obtaining the reports from the second external expert and discuss with them on the reasonableness of the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model adopted by client's valuer;
- Assessing the reasonableness of the key assumptions;
- Checking key assumptions and input data in the valuation model to supporting evidence;
- Assessing the arithmetical accuracy of fair value less costs of disposal as test for impairments; and
- Checking the parameters used against supporting evidence.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the 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 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 on the other information obtained prior to the date of this auditor's report, 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.

INDEPENDENT AUDITOR'S REPORT

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

The Directors are responsible for the preparation of the consolidated financial statements that give 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 Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, 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 Company'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 Company'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 Company to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

JH CPA Alliance Limited
Certified Public Accountants
Hong Kong, 29 June 2018

Fung Kwok Leung
Practising Certificate Number P2357

Consolidated Statement of Profit or Loss

For the year ended 31 March 2018

| | Notes | 2018 HK\$'000 | 2017 HK\$'000 |
|--|-------|------------------|------------------|
| Turnover | 6 | 2,972 | 1,673 |
| Cost of sales | | (2,934) | (1,658) |
| Gross profit | | 38 | 15 |
| Other income | 6 | 166 | 11,004 |
| Other gains and losses | 6 | 24,529 | 2,426,960 |
| Selling and distribution costs | | (68) | (47) |
| Administrative and other expenses | | (21,052) | (35,234) |
| Other expenses | 6 | (97,581) | (6,037) |
| Finance costs | 7 | (410,755) | (369,369) |
| (Loss)/Profit before income tax | 8 | (504,723) | 2,027,292 |
| Income tax | 10 | (6,408) | 3 |
| (Loss)/Profit for the year | | (511,131) | 2,027,295 |
| Attributable to: | | | |
| Owners of the Company | 11 | (509,455) | 1,978,002 |
| Non-controlling interests | | (1,676) | 49,293 |
| | | (511,131) | 2,027,295 |
| (Loss)/Earnings per share | | | |
| Basic (Hong Kong cents) | 13 | (42) | 313 |
| Diluted (Hong Kong cents) | 13 | (42) | 313 |

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2018

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|------------------|------------------|
| (Loss)/Profit for the year | (511,131) | 2,027,295 |
| Other comprehensive income for the year, net of tax: | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | |
| Exchange differences on translation of financial statements of foreign operations | (3,956) | 47,767 |
| Total comprehensive (expense)/income for the year, net of tax | (515,087) | 2,075,062 |
| Attributable to: | | |
| Owners of the Company | (513,570) | 2,021,682 |
| Non-controlling interests | (1,517) | 53,380 |
| | (515,087) | 2,075,062 |

Consolidated Statement of Financial Position

As at 31 March 2018

| | Notes | 2018 HK\$'000 | 2017 HK\$'000 |
|---|-------|--------------------|------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 15 | 14,901 | 13,898 |
| Other intangible assets | 16 | 522,142 | 529,088 |
| Exploration and evaluation assets | 17 | 2,331,014 | 2,392,398 |
| | | 2,868,057 | 2,935,384 |
| Current assets | | | |
| Trade receivables | 18 | 2,747 | 1,282 |
| Prepayments for acquisition of property, plant and equipment | | 418 | — |
| Other receivables, deposits and prepayments | | 2,983 | 2,774 |
| Cash and cash equivalents | 19 | 9,611 | 10,846 |
| | | 15,759 | 14,902 |
| Current liabilities | | | |
| Trade payables | 20 | — | 1,282 |
| Other payables, accrued expenses and trade deposit received | | 18,888 | 17,689 |
| Interest-bearing borrowings | 21 | 9,468 | 39,072 |
| Amount due to an ex-director | 22(a) | — | 5,957 |
| Amount due to a shareholder | 22(b) | 1,968 | — |
| Purchase consideration payable for additional acquisition | 23 | 3,348 | 3,315 |
| Convertible note payables | 24 | 3,591,498 | 3,187,111 |
| | | 3,625,170 | 3,254,426 |
| Net current liabilities | | (3,609,411) | (3,239,524) |
| Total assets less current liabilities | | (741,354) | (304,140) |

Consolidated Statement of Financial Position

As at 31 March 2018

| | Notes | 2018 HK\$'000 | 2017 HK\$'000 |
|--|-------------|------------------|------------------|
| Non-current liabilities | | | |
| Amount due to an ex-director | 22(a) | — | 5,910 |
| Amount due to a related party | 22(e) | — | 33,897 |
| Amount due to a shareholder | 22(c) & (d) | 106,657 | 33,039 |
| Interest-bearing borrowings | 21 | 37,409 | — |
| Promissory notes payables | 25 | 15,600 | 15,600 |
| Provision for close down, restoration and environmental costs | 26 | 1,528 | 1,474 |
| Deferred tax liabilities | 27 | 6,490 | 6 |
| | | 167,684 | 89,926 |
| NET LIABILITIES | | (909,038) | (394,066) |
| CAPITAL AND RESERVES | | | |
| Share capital | 28 | 241,695 | 241,695 |
| Reserves | | (1,176,724) | (663,269) |
| Equity attributable to owners of the Company | | (935,029) | (421,574) |
| Non-controlling interests | | 25,991 | 27,508 |
| CAPITAL DEFICIENCIES | | (909,038) | (394,066) |

These financial statements were approved and authorised for issue by the Board of Directors on 29 June 2018.

Jo Sang Hee
Director

Ahn Kibaek
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2018

| Group | Share capital HK\$'000 | Share premium HK\$'000 | Translation reserve HK\$'000 | Equity-settled | | Capital reserve HK\$'000 | Accumulated losses HK\$'000 | Sub-total HK\$'000 | Non-controlling interest HK\$'000 | Total HK\$'000 |
|---|---------------------------|---------------------------|---------------------------------|---------------------------|----------------------------------|-----------------------------|--------------------------------|-----------------------|--------------------------------------|-------------------|
| | | | | Other reserve HK\$'000 | share option reserve HK\$'000 | | | | | |
| At 1 April 2016 | 102,690 | 1,917,558 | (11,395) | 322,379 | 47 | 23,518 | (4,976,099) | (2,621,302) | (25,872) | (2,647,174) |
| Profit for the year | — | — | — | — | — | — | 1,978,002 | 1,978,002 | 49,293 | 2,027,295 |
| Other comprehensive income for the year | — | — | 43,680 | — | — | — | — | 43,680 | 4,087 | 47,767 |
| Total comprehensive income for the year | — | — | 43,680 | — | — | — | 1,978,002 | 2,021,682 | 53,380 | 2,075,062 |
| Issue of shares upon loan capitalisation (Note 28(iii)) | 93,845 | 32,323 | — | — | — | — | — | 126,168 | — | 126,168 |
| Issue of shares upon new placement (Note 28(i)&(ii)) | 45,160 | 6,636 | — | — | — | — | — | 51,796 | — | 51,796 |
| Waiver of interest on early settle of amounts due to shareholders | — | — | — | — | — | 82 | — | 82 | — | 82 |
| At 31 March 2017 | 241,695 | 1,956,517 | 32,285 | 322,379 | 47 | 23,600 | (2,998,097) | (421,574) | 27,508 | (394,066) |
| Loss for the year | — | — | — | — | — | — | (509,455) | (509,455) | (1,676) | (511,131) |
| Other comprehensive income for the year | — | — | (4,115) | — | — | — | — | (4,115) | 159 | (3,956) |
| Total comprehensive expenses for the year | — | — | (4,115) | — | — | — | (509,455) | (513,570) | (1,517) | (515,087) |
| Waiver of interest on early settle of amounts due to shareholders | — | — | — | — | — | 115 | — | 115 | — | 115 |
| At 31 March 2018 | 241,695 | 1,956,517 | 28,170 | 322,379 | 47 | 23,715 | (3,507,552) | (935,029) | 25,991 | (909,038) |

Consolidated Statement of Cash Flows

For the year ended 31 March 2018

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| Cash flow from operating activities | | |
| (Loss)/Profit before income tax expenses | (504,723) | 2,027,292 |
| Adjustments for: | | |
| (Bad debt recovery)/Bad debt | (13) | 13 |
| Depreciation | 51 | 43 |
| Amortisation of other intangible assets | 97,581 | 6,037 |
| Finance costs | 410,755 | 369,369 |
| Fair value gain on capitalisation of loans | — | (25,808) |
| Provision for close down, restoration and environmental costs | 62 | 59 |
| Reversal of impairment loss on other intangible assets | (93,951) | (470,567) |
| Reversal of impairment loss on property, plant and equipment | (6) | (12,110) |
| Impairment loss/(Reversal of impairment loss) on exploration and evaluation assets | 69,428 | (1,918,475) |
| Operating loss before working capital changes | (20,816) | (24,147) |
| Increase in trade receivables | (1,452) | (1,295) |
| Increase in other receivables, deposits and prepayments | (209) | (1,055) |
| (Decrease)/Increase in trade payables | (1,282) | 1,282 |
| Increase/(Decrease) in other payables, accrued expenses and trade deposits received | 1,199 | (8,353) |
| Decrease in coal trade deposit received | — | (24,180) |
| Cash used in operating activities | (22,560) | (57,748) |
| Interest and bank charges paid | (6,368) | (10,447) |
| Net cash used in operating activities | (28,928) | (68,195) |

Consolidated Statement of Cash Flows

For the year ended 31 March 2018

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| Cash flow from investing activities | | |
| Advance for acquisition of property, plant and equipment | (418) | — |
| Purchases of property, plant and equipment | (1,111) | (32) |
| Capitalised expenses of exploration and evaluation assets | (8,044) | (5,550) |
| Deposit refund from acquisition of property, plant and equipment | — | 289 |
| Net cash used in investing activities | (9,573) | (5,293) |
| Cash flow from financing activities | | |
| Loan received from a shareholder of the Company | 76,230 | 790 |
| Repayment of loan to a Director of the Company | — | (2,000) |
| Repayment of loan to a shareholder of the Company | (1,080) | (868) |
| Repayment of loan to an ex-director of the Company | (11,867) | (3,000) |
| Decrease in amount due to a Director | — | (1,058) |
| Increase in amount due to an ex-director | — | 523 |
| (Decrease)/Increase in amount due to a related party | (33,897) | 1,618 |
| Increase in amount due to shareholders | 551 | 522 |
| Repayments of loans | (39,072) | (96,438) |
| Proceeds from borrowings | 46,877 | 47,800 |
| Repayment of principal of promissory notes | — | (56,560) |
| Proceeds from placement of new shares | — | 51,796 |
| Proceeds from loan capitalisations | — | 151,976 |
| Net cash generated from financing activities | 37,742 | 95,101 |
| Net (decrease)/increase in cash and cash equivalents | (759) | 21,613 |
| Cash and cash equivalents at beginning of year | 10,846 | 337 |
| Effect of exchange rate changes on cash and cash equivalents | (476) | (11,104) |
| Cash and cash equivalents at end of year | 9,611 | 10,846 |
| Analysis of the balances of cash and cash equivalents | | |
| Cash and bank balances | 9,611 | 10,846 |

Notes to the Financial Statements

For the year ended 31 March 2018

1. ORGANISATION AND OPERATIONS

Siberian Mining Group Company Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability, and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The address of its registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is at Room 2402, 24/F., Tower 2, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

The Company engages in investment holding. The principal activities of its principal subsidiaries are set out in Note 41.

The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is also the functional currency of the Company, and all values are rounded to the nearest thousand except where otherwise indicated.

The consolidated financial statements for the year ended 31 March 2018 were approved for issue by the Board of Directors on 29 June 2018.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), Hong Kong Accounting Standards (“**HKASs**”), and Interpretations (hereinafter collectively referred to as the “**HKFRSs**”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

(b) Basis of measurement and going concern assumptions

The financial statements have been prepared under the historical cost convention, as modified for certain financial instruments, which are carried at fair value, as explained in the accounting policies set out below.

It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements. Although these estimations are based on the best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

During the year, the Group incurred total comprehensive expenses of HK\$515,087,000 (2017: total comprehensive income of HK\$2,075,062,000) and, as at 31 March 2018, the Group’s current liabilities exceeded its current assets by approximately HK\$3,609,411,000 (2017: HK\$3,239,524,000) and there was a capital deficiency of HK\$909,038,000 (2017: HK\$394,066,000) as at 31 March 2018. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

The Directors are currently implementing the measure below to improve the operating and financial position of the Group:

- Continue to exercise cost control to monitor administrative and other expenses by further streamlining the Group’s operation.

Notes to the Financial Statements

For the year ended 31 March 2018

2. BASIS OF PREPARATION *(Continued)*

(b) Basis of measurement and going concern assumptions *(Continued)*

In addition, the Group has obtained funding and financial support from the following parties:

- (i) Executed various loan facilities agreements with different independent third parties to provide continuous financial support to the Group. The loan facilities will provide funding to the Group of up to US\$105,860,683 (approximately HK\$825,713,000) for the 18 months period commencing on 5 June 2018 and 29 June 2018 (as the case may be).
- (ii) As set out in Note 21, with regard to Other Loan 2, the lender has agreed not to demand for repayment for the amount due before 31 December 2019. In the opinion of the Directors, a further extension can be done when necessary.
- (iii) As set out in Note 21, with regard to Other Loan 6, the lender has agreed not to demand for repayment for the amount due before 31 December 2019. In the opinion of the Directors, a further extension can be done when necessary.
- (iv) As set out in Note 21, with regard to Other Loan 7, the lender has agreed not to demand for repayment for the amount due before 28 March 2020. In the opinion of the Directors, a further extension can be done when necessary.
- (v) As set out in Note 21, with regard to Other Loan 8, the lender has agreed not to demand for repayment for the amount due before 7 March 2020. In the opinion of the Directors, a further extension can be done when necessary.
- (vi) As set out in Note 25, with regard to the promissory notes, the promissory notes holder has agreed not to demand for repayment of the amount due before 31 December 2019. In the opinion of the Directors, a further extension can be done when necessary.
- (vii) As set out in Note 22(c) and (d), with regard to amounts due to shareholders, they have agreed not to demand for repayment of the amount due before 31 December 2019.
- (viii) The Company has obtained additional loan facilities sufficient to support the continual normal operation of the Group for at least 12 months after the year end date. For details, please refer to Note 41(c) to (g).
- (ix) The Company has initiated different ways of enhancing the Group's overall financial position including, but not limited to, capital reorganisation and further fund raising from the capital market.

With the successful implementation of the measures and the funding and financial support obtained as set out above, in the opinion of the Directors, the Group will have sufficient funds to satisfy its future working capital and other financial commitments as and when they fall due. Together with the probable capital reorganisation and further fund raising activities, the Directors are of the view that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business, the effect of which has not yet been reflected in the financial statements. Adjustments may have to be made to write down assets to their recoverable amounts. In addition, the Group may have to provide further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

Notes to the Financial Statements

For the year ended 31 March 2018

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

- (a) The accounting policies and basis of preparation adopted in the preparation of the consolidated financial statements are the same as those used in the consolidated financial statements for the year ended 31 March 2017, except in relation to the following new and revised HKFRSs that affect the Group and are adopted for the first time for the current year’s financial statements as explained in (b) below.
- (b) New and revised HKFRSs effective in current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants.

| | |
|------------------------|--|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKFRS 12 | Annual Improvements to HKFRSs 2014-2016 Cycle |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior year and/or on the disclosures set out in these 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 flows from those financial assets were, or future cash flows will be included in cash flows from financing activities.

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

The additional disclosure has been included to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, which require disclosure of changes in liabilities arising from financing activities. Apart from the additional disclosure, the application of these amendments has had no impact on the Group’s consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 March 2018

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(c) New and revised HKFRSs issued but not yet effective:

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

| | |
|-----------------------------------|--|
| HKFRS 9 | Financial Instruments ¹ |
| HKFRS 15 | Revenue from Contracts with Customers ¹ |
| HKFRS 16 | Leases ² |
| HKFRS 17 | Insurance Contracts ² |
| Amendment to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions ¹ |
| Amendment to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹ |
| Amendment to HKFRS 9 | Prepayment Features with Negative Compensation ² |
| Amendment to HKFRS 15 | Clarifications to HKFRS 15 ¹ |
| Amendment to HKFRS 19 | Employee Benefits ² |
| Amendment to HKFRS 28 | Long-term interest in associates and joint ventures ² |
| Amendments to HKAS 40 | Investment property ¹ |
| Amendment to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture ³ |
| Amendments to HKFRSs | Annual Improvements to HKFRS Standards 2014-2016 Cycle ⁴ |
| HK(IFRIC) 22 | Foreign currency transactions and advance consideration ¹ |
| HK(IFRIC) 23 | Uncertainty over income tax treatments ² |

¹ Effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2019 with earlier application permitted.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

⁵ Effective for annual periods beginning on or after 1 January 2021.

Notes to the Financial Statements

For the year ended 31 March 2018

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

- (c) New and revised HKFRSs issued but not yet effective: *(Continued)*

HKFRS 9, ‘Financial Instruments’

The new standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (“**FVOCI**”) and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to the profit or loss in the future. For financial liabilities there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. The new impairment model requires the recognition of impairment provisions based on expected credit losses (“**ECL**”) rather than only incurred credit losses as is the case under HKAS 39. Under the new hedge accounting rules, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

Under HKFRS 9, trade receivables of the Group are likely to be classified as FVOCI instruments with earlier recognition of loss is expected, and amount of relevant impairment provision may be revised when ECL is referenced. Gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

Management is currently assessing the effects of applying the new standard on the Group’s financial statements. At this stage, the Group is not able to estimate the impact of the new rules on the Group’s financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 9 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

HKFRS 15, ‘Revenue from Contracts with Customers’

This standard will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service is transferred to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Under HKFRS 15, revenue arising from channel sales of the Group may subject to a different timing of recognition, which may impact the amount of revenue recognized by the Group for a given period.

Management is currently assessing the effects of applying the new standard on the Group’s financial statements. At this stage, the Group is not able to estimate the impact of the new rules on the Group’s financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

Notes to the Financial Statements

For the year ended 31 March 2018

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

- (c) New and revised HKFRSs issued but not yet effective: (Continued)

HKFRS 16, ‘Leases’

HKFRS 16 will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed for a lessee. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group’s operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$1,373,000. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statement of financial position. As for the financial performance impact in the consolidated profit or loss and other comprehensive income, the operating lease expenses will decrease, while depreciation and amortisation and the interest expense will increase.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRS or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specially, 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.

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

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.

Non-controlling interest in subsidiaries are presented in the consolidated statement of financial position within equity, separately from equity attributable to owners of the Company. Non-controlling interest in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business Combination *(Continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting year in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date the control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries *(Continued)*

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interest and the equity shareholders of the company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses.

(d) Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at historical cost less accumulated depreciation and any accumulated impairment losses, except for freehold land which is stated at cost less any impairment losses and is not depreciated.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of assets can be measured reliably, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Depreciation is charged so as to write off the cost of assets, other than construction in progress, over their estimated useful lives, using the straight-line method. The useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year. The principal annual rates are as follows:

| | |
|------------------------|------------|
| Plant and machinery | 6.67% |
| Furniture and fixtures | 20% |
| Equipment | 10% to 20% |
| Motor vehicles | 10% to 30% |

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Construction in progress

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost less any impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for intended use.

(f) Intangible assets excluding goodwill

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with definite useful life are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the estimated useful economic life and assessed for impairment whenever there is an indication that an intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in the profit or loss.

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

Mining Rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses and are amortised (i) on the units of production method utilising only proven and probable coal reserves in the depletion base; or (ii) straight line method over the remaining terms of the mining rights if no mining activity is carried out as appropriate.

(g) Impairment of tangible and intangible assets excluding goodwill and financial assets

At the end of each reporting year, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses (if any). Where 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that may be impaired.

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of tangible and intangible assets excluding goodwill and financial assets *(Continued)*

Recoverable amount is the higher of fair value less costs to sell 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(h) Exploration and evaluation assets

Exploration and evaluation assets include the cost of obtaining and maintaining mining and exploration rights and expenditure incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources.

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, they are stated at cost less any accumulated impairment losses and no amortisation charge is recognised. Cost expensed during the exploration and evaluation phase including expenditure incurred before obtaining the legal rights to explore specific area are included in profit or loss.

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

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Exploration and evaluation assets *(Continued)*

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

The recoverable amount is the higher of the exploration and evaluation asset's fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped into each area of interest for which exploration activities are undertaken.

When the technical feasibility and commercial viability of extracting mineral resources become demonstrable, previously recognised exploration and evaluation assets are transferred to "Property, plant and equipment" and "Mining licence", as appropriate. These assets are tested for impairment before their reclassification.

(i) Financial Instruments

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

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

(i) *Financial assets*

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (including trade receivables, other receivables, deposits and prepayment and cash and cash equivalents), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial Instruments *(Continued)*

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting year, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- a ranting concession to a debtor because of debtor's financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise. Financial liabilities at amortised cost.

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial Instruments *(Continued)*

(iii) Financial liabilities *(Continued)*

Financial liabilities at amortised cost including trade payables, other payables, accrued expenses and trade deposit received, short term borrowings, amount due to an ex-director/a shareholder/a related party, purchase consideration payable for additional acquisition, promissory notes payables, convertible note payables and provision for close down, restoration and environmental cost are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Convertible notes

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

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method, until extinguished on conversion or maturity. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

When the notes are converted, the carrying amount of the liability component together with the fair value of the derivative component at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the notes are redeemed, and difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and derivative components in proportion to the allocation of the proceeds. Transaction costs relating to the derivative component is recognised in profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible notes using the effective interest method.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial Instruments *(Continued)*

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when, and only when, the obligation specified in the relevant contract is discharged, cancelled or expires.

(vii) Extinguishing Financial Liabilities with Equity Instruments

Where the terms of a financial liability are renegotiated and the equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(k) Operating lease

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

Rentals payable under operating leases is charged to the profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(l) Provision, contingent liabilities and contingent assets

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probable result in an outflow of economic benefits that can be reliably measured.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Provision, contingent liabilities and contingent assets *(Continued)*

Provision for close down, restoration and environmental costs

One consequence of coal mining is land subsidence caused by the resettlement of the land at the mining sites. Depending on the circumstances, the Group may relocate inhabitants from the mining sites prior to conducting mining activities or the Group may compensate the inhabitants for losses or damage from close down and land subsidence after the sites have been mined. The Group may also be required to make payments for restoration, rehabilitation or environmental protection of the land after the sites have been mined.

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during mine development or during the production phase, based on the net present value of estimated future costs. The cost is capitalised where it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of close down. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision is included in borrowing costs. Where there is a change in the expected decommissioning and restoration costs, an adjustment is recorded against the carrying value of the provision and related assets, and the effect is then recognised in the profit or loss on a prospective basis over the remaining life of the operation. Provision for close down and restoration costs does not include any additional obligations which are expected to arise from future disturbance. The cost estimates are reviewed and revised at the end of each reporting period to reflect changes in conditions.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("**functional currency**"). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Hong Kong dollar which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, on consolidation, they are recognised in other comprehensive income and accumulated in equity as translation reserve and recognised in profit or loss on disposal of the net investment.

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Foreign currencies *(Continued)*

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollars using exchange rates prevailing at the end of reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as the Group's translation reserve. Such translation differences are reclassified to profit or loss in the period in which the foreign operation or underlying asset is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(n) Taxation

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes 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 reporting year.

(ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, and are accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and 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 assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year 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.

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Taxation *(Continued)*

(ii) *Deferred tax (Continued)*

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

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 realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting year. 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 reporting year, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(o) Employees' benefits

(i) *Short-term benefits*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of reporting year.

(ii) *Pension obligations*

Contributions to the Mandatory Provident Fund scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to profit or loss when incurred. The Group has no further payment obligations once the contribution has been made.

The Group operates the MPF Scheme for all Hong Kong employees, which is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employers and their employees are required to make monthly contributions to the plan computed at 5% each on the employees' monthly relevant income, subject to the statutory cap of HK\$1,500 monthly contribution. Apart from the mandatory 5% contributions, the employees will not make monthly voluntary contributions and the employers will also not make monthly voluntary contribution. Mandatory contributions to the plan will vest immediately. Where there are employees leaving the Group prior to vesting fully in such contributions by the employers resulted in forfeited contributions, the contributions payable by the Group will be reduced by the amount of forfeited contributions. Please refer to Note 9 for the amounts so utilized in the course of the year (if any) and available at the date of statement of financial position for such use (if any).

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employees' benefits *(Continued)*

(ii) Pension obligations *(Continued)*

The Group makes contributions to the pension fund for the benefit of the employees of the Group's Russian subsidiary in accordance with the relevant requirements of the pension scheme of the Russian Federation ("Russia"). The contributions are expensed as incurred.

(iii) Share-based payments

The Group issues equity-settled share-based payments to certain employees and others providing similar services. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant.

The fair value determined at the grant date of the equity-settled share-based payments is expected to be vested on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting year, the Group revises its estimate of the number of equity instruments expected to be vested. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the share option reserve.

When the share options are cancelled, forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in equity-settled share option reserve will be transferred to accumulated losses.

(p) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) Related parties

(1) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Company's parent.

(2) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

Notes to the Financial Statements

For the year ended 31 March 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Related parties *(Continued)*

- (2) An entity is related to the Group if any of the following conditions applies: *(Continued)*
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (1).
 - (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealing with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

(r) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business. Revenue is reduced for estimated customer returns, rebates and other similar allowances and excludes value added tax or other sales related taxes.

- (i) Revenue from the sale of products is recognised when the Group has delivered products to the customers, the customers have accepted the products; and
- (ii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the effective interest rate applicable.

Notes to the Financial Statements

For the year ended 31 March 2018

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing 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.

(a) Critical judgements in applying accounting policies

Amortisation of mining right

The Group determines the development of its mines, comprising a mining right and an adjacent exploration and mining right as a single unit. In determining how the mining right should be amortised, the Group has exercised judgement that both the estimated reserves and pattern over which the economic benefits embodied in the mines as a whole to be consumed are uncertain and not yet reliably determined. Accordingly, the Group is of the view that it is currently not appropriate to apply the unit-of-production method, until both the estimated reserves and pattern over which the economic benefits embodied in the mines can be reliably determined. The Group further considers that the mining right is available for use once it was acquired and therefore has adopted the straight-line method which is an acceptable method of amortisation. The mining right is amortised using straight line method over an estimated period of 13 years commencing from the financial year ended 31 March 2010.

These consolidated financial statements have been prepared on a going concern basis and the details are explained in note 2(b) to the consolidated financial statements.

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within next financial year, are as follows:

Equity-settled share option expense

Equity-settled share option expense is subject to the limitations of the option pricing models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in profit or loss and equity-settled share option reserve.

Notes to the Financial Statements

For the year ended 31 March 2018

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

Impairment of non-financial assets and goodwill

Goodwill is tested for impairment at least annually. Other assets including property, plant and equipment, exploration and evaluation assets, and mining licences are assessed annually to determine for any indication of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as selling prices, discount rates, future capital requirements and operating costs.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Cash flows are discounted to their present value using a post or pre-tax discount rate, where appropriate that reflects current market assessments of the time value of money and the risks specific to the asset. However, actual sale volume, selling price, future capital requirements and operating costs may be different from assumptions which may require a material adjustment to carrying amount of the assets affected. Management has assessed its cash generating units as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limitation on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimates. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

Reserve estimates

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

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

Notes to the Financial Statements

For the year ended 31 March 2018

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

Reserve estimates (Continued)

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

- (i) Asset carrying values may be affected due to changes in estimated future cash flows.
- (ii) Depreciation, depletion and amortisation charged to profit or loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- (iii) Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.
- (iv) The carrying value of deferred tax may change as a result of changes in the asset carrying values as discussed above.

Provision for close down, restoration and environmental costs

The provision for close down, restoration and environmental costs is determined by management based on their past experience and best estimation of future expenditure, after taking into account the existing relevant regulations in Russia. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future years, the estimate of the associated costs may be subject to revision from time to time.

Exploration and evaluation expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. In this connection, the management makes certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after exploration and evaluation expenditure is capitalised, information becomes available suggesting that the recovery of this expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available.

Notes to the Financial Statements

For the year ended 31 March 2018

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

Income taxes

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. In addition, the realisation of the future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and income tax loss carry-forwards. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on earnings.

6. TURNOVER, OTHER INCOME, OTHER GAINS AND LOSSES, AND OTHER EXPENSES

Turnover, which is also the Group's revenue, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the net invoiced value of services rendered during the year.

An analysis of the Group's turnover, other income, other gains and losses, and other expenses are as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|------------------|------------------|
| Turnover | | |
| Trading of mineral resources and commodities | 2,972 | 1,673 |
| Other income | | |
| Exchange gain, net | 50 | 10,966 |
| Sundry income | 116 | 38 |
| | 166 | 11,004 |
| Other gains and losses | | |
| Fair value gain on capitalisation of loans | — | 25,808 |
| Reversal of impairment loss on other intangible assets (Note 16) | 93,951 | 470,567 |
| Reversal of impairment loss on property, plant and equipment (Notes 15 & 16) | 6 | 12,110 |
| (Impairment loss)/Reversal of impairment loss on exploration and evaluation assets (Note 17) | (69,428) | 1,918,475 |
| | 24,529 | 2,426,960 |
| Other expenses | | |
| Amortisation of other intangible assets — mining right (Note 16) | 97,581 | 6,037 |

Notes to the Financial Statements

For the year ended 31 March 2018

7. FINANCE COSTS

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| Interest expenses on | | |
| Loan from a related party | — | 1,618 |
| Loan from a director | — | 94 |
| Loan from an ex-director | — | 620 |
| Loan from third parties | 3,233 | 7,509 |
| Loan from shareholders | 3,077 | 550 |
| Imputed interest on convertible note payables (Note 24) | 404,387 | 358,922 |
| | 410,697 | 369,313 |
| Bank charges | 58 | 56 |
| | 410,755 | 369,369 |

8. (LOSS)/PROFIT BEFORE INCOME TAX

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|------------------|------------------|
| (Loss)/Profit before income tax is arrived at after charging/(crediting): — | | |
| Employees benefit expenses (excluding directors' emoluments): — | | |
| Wages and salaries | 4,575 | 4,584 |
| Pension fund contributions | 334 | 321 |
| | 4,909 | 4,905 |
| Amortisation of other intangible assets — mining right (Note 16) | 97,581 | 6,037 |
| (Provision of bad debt recovered)/Provision of bad debt | (13) | 13 |
| Depreciation (Note 15) | 51 | 43 |
| Auditor's remuneration | | |
| — Group | 1,650 | 1,580 |
| — Overseas subsidiaries | 174 | 96 |
| Provision for close down, restoration and environmental costs (Note 26) | 62 | 59 |
| Minimum lease payments in respect of premises under operating leases | 1,953 | 1,824 |
| Net exchange gain | (50) | (10,966) |
| Cost of inventories sold | 2,934 | 1,658 |

Notes to the Financial Statements

For the year ended 31 March 2018

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

| Name of directors | Fees | | Salaries and allowances | | Pension fund contributions | | Total | |
|--|------------------|------------------|-------------------------|------------------|----------------------------|------------------|------------------|------------------|
| | 2018 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 |
| Executive directors | | | | | | | | |
| Jo Sang Hee | 70 | — | — | — | — | — | 70 | — |
| Ahn Kibaek | 10 | — | — | — | — | — | 10 | — |
| Shin Min Chul | 25 | — | — | — | — | — | 25 | — |
| Su Run Fa | 82 | 120 | — | — | — | — | 82 | 120 |
| Hong Sang Joon | 220 | 240 | 2,538 | 2,340 | 17 | 18 | 2,775 | 2,598 |
| | 407 | 360 | 2,538 | 2,340 | 17 | 18 | 2,962 | 2,718 |
| Independent non-executive directors | | | | | | | | |
| Kwok Kim Hung, Eddie | 120 | 120 | — | — | — | — | 120 | 120 |
| Lee Sungwoo | 70 | — | — | — | — | — | 70 | — |
| Chen Dai | — | — | — | — | — | — | — | — |
| Jo Sang Hee | 50 | 120 | — | — | — | — | 50 | 120 |
| Lai Hen Zhen | 89 | 120 | — | — | — | — | 89 | 120 |
| | 329 | 360 | — | — | — | — | 329 | 360 |
| Total | 736 | 720 | 2,538 | 2,340 | 17 | 18 | 3,291 | 3,078 |

During the current and prior years, no remuneration was paid by the Group to any Director as an inducement to join or upon joining the Group or as compensation for loss of office.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year (2017: Nil).

Notes to the Financial Statements

For the year ended 31 March 2018

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(Continued)

(b) Five highest paid individuals

The five highest paid individuals during the year included one Director (2017: one Director) and one senior management (2017: one). Details of Directors' remuneration are set out in Note (a) above. Details of the remuneration of the remaining four (2017: four) non-directors, highest paid individuals for the year are as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|-----------------------------|------------------|------------------|
| Salaries and other benefits | 3,159 | 3,210 |
| Pension fund contribution | 36 | 36 |
| | 3,195 | 3,246 |

The number of non-director, highest paid individuals whose remuneration fell within the following band is as follows:

| | 2018 | 2017 |
|--------------------------------|----------|----------|
| Nil to HK\$1,000,000 | 3 | 3 |
| HK\$1,000,001 to HK\$1,500,000 | — | 1 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | — |
| HK\$2,000,001 to HK\$2,500,000 | — | — |
| HK\$2,500,001 to HK\$3,000,000 | — | — |
| | 4 | 4 |

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Company and the Group's subsidiary (the employers) and its Hong Kong employees make monthly contributions to the scheme generally at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employer and the Hong Kong employees are subject to a maximum contribution of HK\$1,500 (2017: HK\$1,500) per month and thereafter contributions are voluntary. The Group has no further obligation for post-retirement benefits beyond the contributions in respect of the Hong Kong employees.

For the year ended 31 March 2018, the amount of the Group's employer contributions to defined contribution plans was HK\$334,000 (2017: HK\$321,000). During the current and prior years, no contributions have been forfeited to the MPF Scheme which has not been utilised for the year ended 31 March 2018. As at 31 March 2018, contribution payable to the MPF Scheme (both employer and employee portions) amounted to HK\$6,500 (2017: HK\$6,400).

Notes to the Financial Statements

For the year ended 31 March 2018

10. INCOME TAX

(a) Taxation in the consolidated statement of profit or loss represents:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| Group: | | |
| Current — Hong Kong Charge for the year | — | — |
| Current — Russia and other overseas Deferred tax (Note 27) | 6,408 | (3) |
| | 6,408 | (3) |

No provision for Hong Kong profits tax was made for the current and prior years as the Hong Kong subsidiaries of the Group have no assessable profits for Hong Kong profits tax purposes in the current and prior years. Taxation for the Russian and other foreign operations are similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Taxation for the year can be reconciled to the accounting (loss)/profit as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| (Loss)/Profit before income tax expenses | (504,723) | 2,027,292 |
| Tax (charge)/credit calculated at the weighted average statutory tax rate | (83,436) | 334,740 |
| Tax effect of expenses not deductible for taxation purposes | 89,632 | 78,929 |
| Tax effect of income not taxable for taxation purposes | (6,892) | (414,351) |
| Tax effect of unrecognised temporary difference | 6,410 | — |
| Tax effect of tax losses not recognised | 694 | 679 |
| Income tax charge/(credit) for the year | 6,408 | (3) |

Notes to the Financial Statements

For the year ended 31 March 2018

11. (LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

(Loss)/Profit from ordinary activities attributable to owners of the Company for the year ended 31 March 2018 includes a loss of HK\$509,455,000 (2017: profit of HK\$1,978,002,000) which has been dealt with in the financial statements of the Company.

12. DIVIDEND

The Board did not recommend the payment of any dividend for the year ended 31 March 2018 (2017: Nil).

13. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic (loss)/earnings per share is based on the (loss)/profit for the year attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted (loss)/earnings per share was based on the (loss)/profit for the year attributable to the owners of the Company, adjusted to reflect the imputed interest on a convertible note, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

As the Company's outstanding share options and convertible note have an anti-dilutive effect to the basic (loss)/earnings per share calculation for the current and prior years, the conversion of the outstanding share options and convertible note is therefore not assumed in the computation of diluted (loss)/earnings per share for the current and prior years. Therefore, the basic and diluted (loss)/earnings per share calculations for the respective years are the same.

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

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| (Loss)/Profit (Loss)/Profit attributable to the owners of the Company, used in the basic and diluted (loss)/earnings per share | (509,455) | 1,978,002 |

| | Number of shares | |
|--|----------------------|-------------|
| | 2018 | 2017 |
| Shares Weighted average number of ordinary shares for basic and diluted (loss)/earnings per share | 1,208,475,523 | 632,179,024 |

Notes to the Financial Statements

For the year ended 31 March 2018

14. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the Directors, the chief operating decision maker, that are used for resources allocation and for making strategic decisions.

The Group's operating segments are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. Details of the operating segments are summarised as follows:

- (i) Mining segment comprises mining and exploration activities of coal mines in Russia.
- (ii) Mineral resources, commodities and other trading segment comprises the business of integration module and paper for newspaper printing trading in the Republic of Korea ("Korea").

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There were no inter segment sales and transfers.

(a) Reportable segments

The following table presents the revenue, results and certain assets, liabilities and expenditure information for the Group's reportable segments for the years ended 31 March 2018 and 2017.

For the year ended 31 March 2018

| | Mining HK\$'000 | Mineral resources, commodities and other trading HK\$'000 | Consolidated total HK\$'000 |
|---|--------------------|--|-----------------------------------|
| Reportable segment revenue | | | |
| Revenue from external customers | — | 2,972 | 2,972 |
| Reportable segment loss | (79,259) | (91) | (79,349) |
| Reversal of impairment loss on other intangible assets | 93,951 | — | 93,951 |
| Reversal of impairment loss on property, plant and equipment | 6 | — | 6 |
| Impairment loss on exploration and evaluation assets | (69,428) | — | (69,428) |
| Depreciation | (49) | (2) | (51) |
| Reversal of allowance for doubtful trade receivables | — | 13 | 13 |
| Amortisation of other intangible assets | (97,581) | — | (97,581) |
| Reportable segment assets | 2,873,211 | 3,760 | 2,876,971 |
| Additions to non-current assets | 9,155 | — | 9,155 |
| Reportable segment liabilities | (43,397) | (3,796) | (47,193) |

Notes to the Financial Statements

For the year ended 31 March 2018

14. SEGMENT INFORMATION *(Continued)*

(a) Reportable segments *(Continued)*

For the year ended 31 March 2017

| | Mining HK\$'000 | Mineral resources, commodities and other trading HK\$'000 | Consolidated total HK\$'000 |
|---|--------------------|--|-----------------------------------|
| Reportable segment revenue | | | |
| Revenue from external customers | — | 1,673 | 1,673 |
| Reportable segment (loss) /profit | 2,399,684 | (22) | 2,399,662 |
| Reversal of impairment loss on other intangible assets | 470,567 | — | 470,567 |
| Reversal of impairment loss on property, plant and equipment | 12,110 | — | 12,110 |
| Reversal of impairment loss on exploration and evaluation assets | 1,918,475 | — | 1,918,475 |
| Depreciation | (41) | (2) | (43) |
| Allowance for doubtful trade receivables | — | (13) | (13) |
| Amortisation of other intangible assets | (6,037) | — | (6,037) |
| Reportable segment assets | 2,947,833 | 1,335 | 2,949,168 |
| Additions to non-current assets | 5,582 | — | 5,582 |
| Reportable segment liabilities | (34,918) | (1,242) | (36,160) |

Notes to the Financial Statements

For the year ended 31 March 2018

14. SEGMENT INFORMATION *(Continued)*

(a) Reportable segments *(Continued)*

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| Revenue | | |
| Reportable segment revenue and consolidated revenue | 2,972 | 1,673 |
| | | |
| | 2018 HK\$'000 | 2017 HK\$'000 |
| (Loss)/Profit before income tax | | |
| Reportable segment (loss)/profit | (79,349) | 2,399,662 |
| Other gains and losses | — | 25,808 |
| Unallocated corporate expenses | (14,619) | (28,809) |
| Finance costs | (410,755) | (369,369) |
| Consolidated (loss)/profit before income tax | (504,723) | 2,027,292 |
| | | |
| | 2018 HK\$'000 | 2017 HK\$'000 |
| Assets | | |
| Reportable segment assets | 2,876,971 | 2,949,168 |
| Unallocated corporate assets | 6,845 | 1,118 |
| Consolidated total assets | 2,883,816 | 2,950,286 |
| | | |
| | 2018 HK\$'000 | 2017 HK\$'000 |
| Liabilities | | |
| Reportable segment liabilities | (47,193) | (36,160) |
| Unallocated corporate liabilities | (3,745,661) | (3,308,192) |
| Consolidated total liabilities | (3,792,854) | (3,344,352) |

Notes to the Financial Statements

For the year ended 31 March 2018

14. SEGMENT INFORMATION *(Continued)*

(b) Geographical information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments and deferred tax assets, if any (the "Specific non-current assets"):

| | Revenue from external customers | | Specific non-current assets | |
|--------|---------------------------------|------------------|-----------------------------|------------------|
| | 2018 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 |
| Russia | — | — | 2,868,057 | 2,935,382 |
| Korea | 2,972 | 1,673 | — | 2 |
| | 2,972 | 1,673 | 2,868,057 | 2,935,384 |

(c) Information about major customers

For the year ended 31 March 2018, revenue from two customers in the mineral resources, commodities and other trading segment amount to HK\$576,000 and HK\$2,396,000 respectively, each contributed to more than 10% of the Group's revenue.

For the year ended 31 March 2017, revenue from two customers of the mineral resources, commodities and other trading segment amount to HK\$529,000 and HK\$1,144,000 respectively, each contributed to more than 10% of the Group's revenue.

Notes to the Financial Statements

For the year ended 31 March 2018

15. PROPERTY, PLANT AND EQUIPMENT

| | Construction in progress HK\$'000 | Freehold land HK\$'000 | Furniture and fixture HK\$'000 | Equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|--|---|------------------------------|--------------------------------------|-----------------------|-------------------------------|-------------------|
| Cost | | | | | | |
| At 1 April 2016 | 9,918 | 1,481 | 118 | 132 | 172 | 11,821 |
| Additions | — | — | 3 | 29 | — | 32 |
| Exchange realignments | 2,082 | 310 | 17 | 1 | 36 | 2,446 |
| At 31 March 2017 | 12,000 | 1,791 | 138 | 162 | 208 | 14,299 |
| Additions | 1,044 | — | 30 | 37 | — | 1,111 |
| Disposals | — | — | — | (25) | — | (25) |
| Exchange realignments | (48) | (9) | — | — | (1) | (58) |
| At 31 March 2018 | 12,996 | 1,782 | 168 | 174 | 207 | 15,327 |
| Accumulated depreciation and impairment | | | | | | |
| At 1 April 2016 | 9,681 | 1,444 | 96 | 92 | 123 | 11,436 |
| Charge for the year (Note 8) | — | — | 7 | 17 | 19 | 43 |
| Reversal of impairment loss (Note 6) | (10,539) | (1,571) | — | — | — | (12,110) |
| Exchange realignments | 858 | 127 | 18 | 1 | 28 | 1,032 |
| At 31 March 2017 | — | — | 121 | 110 | 170 | 401 |
| Charge for the year (Note 8) | — | — | 9 | 22 | 20 | 51 |
| Reversal of impairment loss (Note 6) | (5) | (1) | — | — | — | (6) |
| Written back on disposal | — | — | — | (24) | — | (24) |
| Exchange realignments | 5 | 1 | (1) | — | (1) | 4 |
| At 31 March 2018 | — | — | 129 | 108 | 189 | 426 |
| Net carrying value | | | | | | |
| At 31 March 2018 | 12,996 | 1,782 | 39 | 66 | 18 | 14,901 |
| At 31 March 2017 | 12,000 | 1,791 | 17 | 52 | 38 | 13,898 |

As explained in Note 16, property, plant and equipment associated with the mining right had been taking up the reversal of impairment loss during the current year.

Notes to the Financial Statements

For the year ended 31 March 2018

16. OTHER INTANGIBLE ASSETS

| | Mining right HK\$'000 |
|--|---------------------------------|
| Cost | |
| At 1 April 2016 | 1,435,856 |
| Exchange realignments | 301,555 |
| At 31 March 2017 and 1 April 2017 | 1,737,411 |
| Exchange realignments | (8,705) |
| At 31 March 2018 | 1,728,706 |
| Accumulated amortisation and impairment | |
| At 1 April 2016 | 1,426,111 |
| Charge for the year (Note 8) | 6,037 |
| Reversal of impairment loss (Note 6) | (470,567) |
| Exchange realignments | 246,742 |
| At 31 March 2017 and 1 April 2017 | 1,208,323 |
| Charge for the year (Note 8) | 97,581 |
| Reversal of impairment loss (Note 6) | (93,951) |
| Exchange realignments | (5,389) |
| At 31 March 2018 | 1,206,564 |
| Net carrying value | |
| At 31 March 2018 | 522,142 |
| At 31 March 2017 | 529,088 |

Mining rights

In prior years, the Company, Grandvest International Limited ("**Grandvest**"), a wholly-owned subsidiary of the Company, Cordia Global Limited ("**Cordia**") and the sole beneficial owner of Cordia entered into an acquisition agreement (the "**Acquisition Agreement**") to acquire a 90% equity interest in Langfeld Enterprises Limited ("**Langfeld**") and its subsidiaries (collectively referred as the "**Langfeld Group**") from Cordia (the "**Acquisition**"). The mining right was acquired as part of the acquisition of the Langfeld Group completed in prior years and was initially recognised at its fair value. At the end of each reporting year, the mining right is measured at cost less impairment.

In performing the impairment test for the current year, the Directors of the Company have engaged Access Partner Consultancy & Appraisals Limited ("**Access Partner**"), an independent firm of professional valuer to determine the recoverable amount of the mining right which is the higher of the asset's fair value less costs of disposal and its value in use. Given the current development status of the mining right, the Directors have determined that the fair value of the mining right less costs of disposal to be its recoverable amount. The recoverable amount is derived by using a discounted cash flow ("**DCF**") analysis. The DCF analysis has incorporated assumptions that a typical market participant would use in estimating the mining right's fair value.

Notes to the Financial Statements

For the year ended 31 March 2018

16. OTHER INTANGIBLE ASSETS *(Continued)*

Mining rights *(Continued)*

The key assumptions used in the DCF analysis in current year include:

- (i) Cash flow projection determined for a period of 16 years up to 2033 (2017: a period of 15 years up to 2031) with the first year of production taken to be 2023 (2017: first year of production taken to be 2021) based on the current estimated production plan.
- (ii) Costs of production (including royalties) on average is taken as 47.25% (2017: 49.44%) of revenue.
- (iii) The post-tax discount rate applied to the cash flow projection is 19.89% (2017: post-tax discount rate of 19.71%).
- (iv) The Directors have assumed the average increment in coal sales prices to be 3% p.a. (2017: increment of 3% p.a.), which is in line with the comparable market information.
- (v) Coal sales prices used in the DCF in the current and prior years are determined with reference to current market information at the respective valuation dates, which remain unchanged (depends on different type of coals) or show an increase of approximately 40% (depends on different type of coals) when compared to that of last year.
- (vi) The exchange rate for US Dollars to Russian Rubles with reference to the approximate spot rate as of 31 March 2018 of 1.00 US Dollar to 57.13 Rubles (2017: 1.00 US Dollar to 56.24 Rubles).
- (vii) The inflation rate on operating costs is 3% p.a. (2017: 3% p.a.)
- (viii) The Group is able to renew the relevant licence for the mining right before its expiry date.

Apart from the changes in parameters for the major assumptions in the DCF analysis for items (i), (ii), (iii) and (vi) mentioned above, other major assumptions used in the DCF analysis in current year, such as estimated production volumes, operation costs structure and relevant taxation rate, remained within more or less the same range when compared with that of last year.

The Directors of the Company are of the opinion that based on the valuation, the mining right was evaluated upward and thus would result in a reversal of impairment loss of HK\$93,951,000 (2017: HK\$470,567,000) compared with its carrying value as at 31 March 2018. The reversal of impairment loss is mainly attributable to the net effects of the increase of the relevant coal price, the depreciation of Russian Rubles to US Dollars, and the increase in post-tax discount rate during the current year as compared to previous year, and the change of total number of years and change in the first year of production in the DCF analysis in item (i) mentioned above.

The Directors of the Company are also of the opinion that based on the valuation above, property, plant and equipment associated with the mining right were evaluated upward compared with their recoverable amounts as at 31 March 2018. The resultant reversal of impairment loss of HK\$6,000 (2017: HK \$12,110,000) (Note 15) was recognised for property, plant and equipment associated with the mining right during the current year.

Notes to the Financial Statements

For the year ended 31 March 2018

16. OTHER INTANGIBLE ASSETS *(Continued)*

Mining rights *(Continued)*

Details of the Group's mining right are as follows: —

| Intangible assets | Locations | Expiry Date |
|---------------------|---|-------------|
| Mining right | | |
| Lapichevskaya Mine | Industrial area, Kemerovo district, Kemerovo region, 650906, Russian Federation | 1 July 2025 |

17. EXPLORATION AND EVALUATION ASSETS

| | Total HK\$'000 |
|--------------------------------------|-------------------|
| Cost | |
| At 1 April 2016 | 3,627,052 |
| Additions | 5,550 |
| Exchange realignments | 3,604 |
| At 31 March 2017 and 1 April 2017 | 3,636,206 |
| Additions | 8,044 |
| Exchange realignments | 39 |
| At 31 March 2018 | 3,644,289 |
| Accumulated impairment | |
| At 1 April 2016 | 3,161,560 |
| Reversal of impairment loss (Note 6) | (1,918,475) |
| Exchange realignments | 723 |
| At 31 March 2017 and 1 April 2017 | 1,243,808 |
| Impairment loss (Note 6) | 69,428 |
| Exchange realignments | 39 |
| At 31 March 2018 | 1,313,275 |
| Net carrying value | |
| At 31 March 2018 | 2,331,014 |
| At 31 March 2017 | 2,392,398 |

Exploration and evaluation assets are considerations paid for the acquisition of the exploration and mining rights located adjacent to the Lapichevskaya Mine.

The Group has adopted HKFRS 6 "Exploration for and Evaluation of Mineral Resources" which requires the Group to assess if there is any indicator for impairment at each reporting date.

Notes to the Financial Statements

For the year ended 31 March 2018

17. EXPLORATION AND EVALUATION ASSETS *(Continued)*

In performing the impairment test for the current year, the Directors of the Company have engaged Access Partner to determine the recoverable amount of the exploration and evaluation assets which is the higher of the asset's fair value less costs of disposal and its value in use. Given the current development status of the exploration and evaluation assets, the Directors have determined the fair value less costs of disposal to be its recoverable amount. The recoverable amount is derived by using a DCF analysis. The DCF analysis has incorporated assumptions that a typical market participant would use in estimating the exploration and evaluation asset's fair value.

The key assumptions used in the DCF analysis in current year include:

- (i) Cash flow projection determined for a period of 12 years up to 2029 (2017: a period of 12 years up to 2028) with the first year of production taken to be 2020 (2017: first year of production taken to be 2019) based on the current estimated production plan.
- (ii) The post-tax discount rate applied to the cash flow projection is 19.89% (2017: 19.71%).
- (iii) Coal sales prices used in the DCF in the current and prior years are determined with reference to current market information at the respective valuation dates, which remain more or less unchanged (depends on different type of coals) when compared to that of last year.
- (iv) The Director have assumed the average increment in coal sales prices to be 3% p.a. (2017: 3% p.a.), which is in line with the comparable market information.
- (v) The exchange rate for US Dollars to Russian Rubles with reference to the approximate spot rate as of 31 March 2018 is taken to be 1.00 US Dollar to 57.13 Rubles (2017: 1.00 US Dollar to 56.24 Rubles).
- (vi) The inflation rate on operating costs is 3% p.a. (2017: 3% p.a.).

Apart from the changes in parameters for the major assumptions in the DCF analysis for items (i), (ii) and (v) mentioned above, other major assumptions used in the DCF analysis in current year, such as estimated production volumes, operation costs structure and relevant taxation rate, remained within more or less the same range when compared with that of the last year.

The Directors of the Company are of the opinion that based on the valuation, the exploration and evaluation assets were impaired by HK\$69,428,000 (2017: reversal of impairment loss of HK\$1,918,475,000) compared with their carrying amount as at 31 March 2018. The impairment loss is mainly attributable to the net effects of the depreciation of Russian Rubles to US Dollars and the increase in post-tax discount rate during the current year as compared to the previous year, and the changes in parameters for the other major assumption in the DCF analysis for item (i) mentioned above do not have material impacts on the resultant impairment loss when compared with that of depreciation of Russian Rubles to US Dollars and post-tax discount rate increase.

Details of the Group's exploration and evaluation asset are as follows: —

| Exploration and evaluation assets | Locations | Expiry Date |
|--|---|--------------------|
| Lapichevskaya Mine-2 | "Kemerovo district" and "Kemerovo city" municipal formations of Kemerovo region, Russian Federation | 31 October 2035 |

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For the year ended 31 March 2018

18. TRADE RECEIVABLES

Trade receivables at the end of each reporting year comprise mainly amounts receivable from third parties. The amounts are repayable on demand.

For trade receivables, the Group does not have a specific credit term for its customers and no interest is charged.

| | 2018 HK\$'000 | 2017 HK\$'000 |
|------------------------------------|------------------|------------------|
| Trade receivables | 2,747 | 1,295 |
| Less: Allowance for doubtful debts | — | (13) |
| | 2,747 | 1,282 |

Included in the Group's accounts receivables are debtors (see below for aged analysis) which are past due as at the end of each reporting year for which the Group has not provided for allowance of doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right to offset against any amounts owed by the Group to the counterparty. The average age of these receivables is 15 days. (2017: 30 days)

Ageing of trade receivables which are past due but not impaired were as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|-------------------------------|------------------|------------------|
| Neither past due nor impaired | 2,747 | 1,282 |

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting year. The concentration of credit risk is limited due to the customer base being large and unrelated.

The movement in the allowance for doubtful debt on trade receivables is as follow:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|------------------|------------------|
| At beginning of year | 13 | — |
| (Reversal of impairment loss)/Impairment loss recognised during the year | (13) | 13 |
| Written-off of uncollectible amounts | — | — |
| Exchange realignments | — | — |
| At end of year | — | 13 |

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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For the year ended 31 March 2018

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represents cash at banks and earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The carrying amount of the cash and cash equivalents approximate their fair value.

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|------------------|------------------|
| Cash and cash equivalents were denominated in: | | |
| Russian Ruble ("RUB") | 24 | 31 |
| Korean Won ("KRW") | 1,011 | 46 |
| United States Dollars ("US\$") | 5,086 | 19 |
| Euro ("EUR") | 10 | 8 |
| Hong Kong Dollars ("HK\$") | 3,480 | 10,742 |
| Total | 9,611 | 10,846 |

20. TRADE PAYABLES

| | 2018 HK\$'000 | 2017 HK\$'000 |
|----------------|------------------|------------------|
| Trade payables | — | 1,282 |

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--------------|------------------|------------------|
| 0 to 30 days | — | 1,282 |

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For the year ended 31 March 2018

21. INTEREST-BEARING BORROWINGS

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| Other loan 1 ("Other Loan 1") (Note a) | — | 14,500 |
| Less: Repayment by way of loan capitalisation | — | (12,728) |
| | — | 1,772 |
| Other loan 2 ("Other Loan 2") (Note b) | 5,148 | — |
| Other loan 3 ("Other Loan 3") (Note c) | — | 53,710 |
| Less: Repayment by way of loan capitalisation | — | (46,410) |
| | — | 7,300 |
| Other loan 4 ("Other Loan 4") (Note d) | — | 30,000 |
| Other loan 5 ("Other Loan 5") (Note e) | 9,468 | — |
| Other loan 6 ("Other Loan 6") (Note f) | 28,561 | — |
| Other loan 7 ("Other Loan 7") (Note g) | 1,480 | — |
| Other loan 8 ("Other Loan 8") (Note h) | 2,220 | — |
| | 46,877 | 39,072 |
| | 2018 HK\$'000 | 2017 HK\$'000 |
| Carrying amount repayable: — | | |
| Within one year or on demand | 9,468 | 39,072 |
| Over 1 year but not exceeding 2 years | 37,409 | — |
| | 46,877 | 39,072 |

Notes to the Financial Statements

For the year ended 31 March 2018

21. INTEREST-BEARING BORROWINGS *(Continued)*

Note:

- (a) During the year 2017, Other Loan 1 was bearing interest at 10% per annum and repayable after 12 months from the date of drawdown or on demand. As the lender was a shareholder of the Company, the outstanding principal and interest amount were classified as amount due to shareholders. For more detail please refer to Note 22(b).
- (b) During the year 2018, a new loan amount of USD660,000 (equivalent to approximately HK\$5,148,000) was obtained from an independent third party. Other Loan 2 is bearing interest at 7% per annum and repayable after 6 months from the date of drawdown or on demand. The lender had agreed to extend the repayment date to 31 December 2019.
- (c) During the year 2017, Other Loan 3 was bearing interest at 10% per annum and repayable after 1 year from the date of drawdown or on demand. As the lender was a shareholder of the Company, the outstanding principal and interest amount were classified as amount due to shareholders. For more detail please refer to Note 22(c).
- (d) During the year 2018, Other Loan 4 in aggregate amount of HK\$30,000,000 (including its interest payable) had been fully settled.
- (e) In the previous year, Other Loan 5 was bearing interest at 5% per annum and repayable upon maturity or on demand. It was classified as amount due to an ex-director as the lender resigned during that year.

During the year, the lender was considered as an independent third party of the Company. Therefore, the outstanding amounts were classified as interest-bearing borrowings. For more detail please refer to Note 22(a).

- (f) In the previous year, Other Loan 6, bearing interest rate at 5%-6% per annum and no fixed term of repayment or on demand, was classified as amount due to a related party.

During the year, the lender was considered as an independent third party of the Company. Therefore, the outstanding amounts were re-classified as interest-bearing borrowings. For more detail please refer to Note 22(e).

- (g) During the year 2018, a new loan amount of KRW200,000,000 (equivalent to approximately HK\$1,480,000) was obtained from an independent third party. Other Loan 7 is unsecured, bearing interest at 5% per annum and repayable after 12 months from the date of drawdown or on demand. The lender had agreed to extend the repayment date to 28 March 2020.
- (h) During the year 2018, a new loan amount of KRW300,000,000 (equivalent to approximately HK\$2,220,000) was obtained from an independent third party. Other Loan 8 is unsecured, bearing interest at 5% per annum and repayable after 12 months from the date of drawdown or on demand. The lender had agreed to extend the repayment date to 7 March 2020.

22. AMOUNT DUE TO AN EX-DIRECTOR/SHAREHOLDERS

- (a) In the previous year, the amount due to an ex-director is unsecured, was bearing interest at 5% per annum and had no fixed term of repayment. During the year 2018, the lender (a Director who resigned during 2017) was considered as an independent third party of the Company.

Therefore, the outstanding amount was re-classified as interest-bearing borrowings. For more detail please refer to Note 21(e).

- (b) During the year 2018, the amount due to a shareholder (2017: an independent third party) is unsecured, bears interest at the weighted average effective interest rate of 10% per annum and repayable upon maturity on 31 December 2018 or on demand.

On 20 February 2017, the amount due to a shareholder (including accrued interest payable) totalling HK\$18,945,000 had been capitalised. Pursuant to the loan capitalisation agreement, the shareholder agreed to, among other things, subscribe for new shares of the Company by applying the entire outstanding loan principal and interests on maturity as subscription monies at a price of HK\$0.325 per capitalisation share.

Notes to the Financial Statements

For the year ended 31 March 2018

22. AMOUNT DUE TO AN EX-DIRECTOR/SHAREHOLDERS *(Continued)*

- (c) During the year 2018, the amount due to a shareholder (2017: an independent third party) amounting to HK\$72,970,000 is unsecured and bears interest at the rate of 6%-10% per annum. During the year 2018, agreements were entered into with the same shareholder for new loans in the amount of HK\$59,884,000 which bear interest at 6% to 10% per annum and repayable after 1 year from the date of drawdown or on demand. The shareholder agreed to extend the repayment date to 31 December 2019.

On 20 February 2017, the amount due to a shareholder (including accrued interest payable) with an amount US\$6,771,000 (equivalent to HK\$52,814,000) had been capitalised. Pursuant to the loan capitalisation agreement, the shareholder agreed to, among other things, subscribe the new shares of the Company by applying the entire outstanding principal and interests on maturity as subscription monies at a price of HK\$0.325 per capitalisation share.

- (d) The amount due to a shareholder totalling HK\$33,687,000, which is unsecured and bears interest at the rate of 0%-8% per annum, was repayable within three years after the drawdown date. The shareholder had agreed to extend the repayment date to 31 December 2019.
- (e) In the previous year, the amount due to a related party totalling HK\$33,897,000 is unsecured and bears interest at the rate of 5%-6% per annum and has no fixed term of repayment. During the year 2018, the lender became an independent third party of the Company. Therefore, the outstanding amounts were re-classified as interest-bearing borrowings. For more detail please refer to Note 21(f).

23. PURCHASE CONSIDERATION PAYABLE FOR ADDITIONAL ACQUISITION

Pursuant to the sales and purchases agreement dated 23 November 2009, Langfeld, a 90% indirectly owned subsidiary of the Company, acquired the remaining 30% equity interest in LLC "Shakhta Lapichevskaya" ("**Lapi**") held by three Russian nationals for a consideration of US\$9,490,600 (equivalent to approximately HK\$74,027,000) to be satisfied by the payment of cash in four stages (the "**Additional Acquisition**"). The first and second stages of payments in an aggregate amount of US\$4,095,300 (equivalent to approximately HK\$31,943,000) were made before 31 March 2010. The remaining consideration payable on the Additional Acquisition will be settled in two stages upon the fulfilment of certain conditions as follows: (i) an amount of US\$4,095,300 (equivalent to approximately HK\$31,943,000) when the Group obtained the relevant mining licence (the "**3rd Adjusted Consideration**") and (ii) an amount of US\$1,300,000 (equivalent to approximately HK\$10,140,000) which is only payable as and when the Group obtained the confirmation from the relevant tax authority in Russia of the taxation liabilities of Lapi (the "**4th Adjusted Consideration**").

In prior years, the Group had recognised US\$1,300,000 (equivalent to approximately HK\$10,140,000) of the 4th Adjusted Consideration as purchase consideration payable for the acquisition of additional 30% equity interest in Lapi. The Group's share of the 4th Adjusted Consideration in the amount of HK\$9,126,000 was debited directly to other reserve in equity. The Group settled an aggregate amount of US\$873,400 (equivalent to approximately HK\$6,813,000) of the 4th Adjusted Consideration and the remaining balance of the 4th Adjusted Consideration became US\$426,600 (equivalent to approximately HK\$3,348,000 (2017: HK\$3,315,000)).

During the year, the Group made no further settlement of the 4th Adjusted Consideration. For more detail please refer to Note 33(i).

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For the year ended 31 March 2018

24. CONVERTIBLE NOTE PAYABLES

(i) Convertible note

In prior year, the Third Convertible Note with a principal amount of US\$443,070,000 (equivalent to approximately HK\$3,455,946,000) was issued to Cordia in accordance with the terms of the Acquisition Agreement.

On 22 May 2015, Cordia partially converted the Third Convertible Note amounted to US\$30,800,000 (equivalent to approximately HK\$240,000,000). A total of 5,005,000 conversion shares were issued and allotted to Cordia on 26 May 2015.

On 17 June 2015, the outstanding Third Convertible Note was transferred to a new independent third party, Daily Loyal Limited, at the request of Cordia.

In April 2016, HASS Natural Resources Limited (“**HASS**”) (now known as Newborn Global Energy Limited) and Herman Tso withdrew the First HASS Report and the Supplemental HASS Report (collectively the “**HASS Reports**”). The HASS Reports was previously adopted by the Company to determine the quantum of purchase consideration of the Lapi mine and hence the amount of convertible notes to be issued.

In order to re-assess and support the issuance of the Third Convertible Note, the Company then engaged another experienced and qualified New Technical Expert to perform another technical report (the “**New Technical Report**”) on the basis of the JORC Code prevailing at the time when the Third Convertible Note was issued on 3 April 2013.

The New Technical Expert reported a slightly different estimate of the probable coal reserves in the open pit mining area in Lot 2 of the Mine and, as a result, prior year adjustments on the Third Convertible Note were made to restate the balance in respective years concerned, being HK\$2,127,088,000 (as restated 31 March 2013), HK\$2,398,314,000 (as restated 31 March 2014) and HK\$2,702,681,000 (as restated 31 March 2015). The Company had also re-performed the yearly valuation to determine the recoverable amounts of the exploration and evaluation assets for the years ended 31 March 2013, 2014, 2015 and 2016. Based on the re-performed results, impairment tests for the years ended 31 March 2013, 2014 and 2015 were re-assessed and, adjustments were made to reflect the effect/cumulative effect of the re-performed impairment amounts for each of the said years.

On 22 August 2016, in response to the New Technical Report dated 11 August 2016, Cordia, Choi Sungmin, Grandvest, Daily Loyal Limited (“**the CN holder(s)**”) and the Company entered into an additional agreement in relation to the Third Convertible Note, pursuant to which the principal amount of the whole Third Convertible Note (before any conversion or transfer thereof) would be adjusted from US\$443,070,000 (equivalent to approximately HK\$3,455,946,000) to US\$431,190,000 (equivalent to approximately HK\$3,363,282,000) and accordingly, the principal amount of US\$412,270,000 (equivalent to approximately HK\$3,215,706,000) of the Third Convertible Note held by Daily Loyal Limited would also be reduced by US\$11,880,000 (equivalent to approximately HK\$92,664,000) to US\$400,390,000 (equivalent to approximately HK\$3,123,042,000). Daily Loyal Limited agreed not to request for any compensation from any of the other parties for such reduction.

Notes to the Financial Statements

For the year ended 31 March 2018

24. CONVERTIBLE NOTE PAYABLES (Continued)

(i) Convertible note (Continued)

On 13 April 2017, the Company announced that Daily Loyal and the Company entered into the an amendment agreement (the “**Amendment agreement**”), which provided, among other things, to (i) extend the maturity dates of the Outstanding Third Convertible Note for at least another two years before the Outstanding Third Convertible Note becomes a current liability of the Company; (ii) convert the Outstanding Third Convertible Note except for the principal amount of US\$60,000,000 (equivalent to approximately HK\$468,000,000) at the conversion price of HK\$48 per share of the Company within three business days upon signing of the Amendment Agreement; and (iii) agree on no demand of the remaining outstanding principal amount of the Outstanding Third Convertible Note on the original maturity dates.

However, Daily Loyal (as the plaintiff) subsequently alleged that its sole director (Mr. Chan Chun Wah) signed the Amendment Agreement in August 2016 (leaving the document undated, the “**Undated Amendment Agreement**”) based on an understanding that such document only served as a memorandum for discussion purpose and was not intended to be binding, and that the Company and Mr. Hong Sang Joon (a former Director of the Company) should not fill in the date of the document. Besides, Daily Loyal was of the view that the validity of the Undated Amendment Agreement was contrary to the Additional Agreement entered into by it with Cordia Global Limited (“**Cordia**”), Choi Sungmin, Grandvest International Limited (a subsidiary of the Company) and the Company on 22 August 2016.

Daily Loyal also alleged that (i) the placing and issue of new shares by the Company as announced by the Company on 24 October 2016; (ii) the placing and issue of new shares by the Company as announced by the Company on 24 January 2017; and (iii) the issue of new shares upon loan capitalizations as announced by the Company on 20 February 2017 were conducted without the prior consent or authorization of Daily Loyal and were in breach of a convertible note agreement (the “**Convertible Note Agreement**”) dated 3 April 2013 between the Company and Cordia in relation to the Third Convertible Note. For details please refer to Note 27 in relation to legal action HCA 1071 of 2017.

(ii) Measurement of convertible note

The fair value of the derivative components of the Third Convertible Note was determined based on a professional valuation performed by Access Partner using the Hull model at the date of issue, and there was no change in the fair value of the convertible note (2017: no change in the fair value of convertible note). The effective interest rate of the liability component of the Third Convertible Note was 12.01% (31 March 2017: 12.01%).

| | At 31 March 2018 | At 31 March 2017 |
|-------------------------|---------------------|---------------------|
| Expected volatility | 20.47% | 43.47% |
| Expected life | 0.01 years | 1.01 years |
| Risk-free rate | 0.72% | 0.62% |
| Expected dividend yield | Nil | Nil |
| Bond yield | Nil | Nil |

The expected volatility was determined by taking into account the historical ordinary share prices of the Company before the date of valuation.

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24. CONVERTIBLE NOTE PAYABLES (Continued)

(iii) Movement of the different components of the convertible note

| | Convertible notes | | |
|---|-----------------------------------|----------------------------------|-------------------|
| | Liabilities component HK\$'000 | Derivative component HK\$'000 | Total HK\$'000 |
| At 1 April 2016 | 2,828,189 | — | 2,828,189 |
| Imputed interest charged during the year (Note 7) | 358,922 | — | 358,922 |
| At 31 March 2017 and 1 April 2017 | 3,187,111 | — | 3,187,111 |
| Imputed interest charged during the year (Note 7) | 404,387 | — | 404,387 |
| At 31 March 2018 | 3,591,498 | — | 3,591,498 |

25. PROMISSORY NOTES PAYABLE

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|------------------|------------------|
| At beginning of the year | 15,600 | 72,160 |
| Imputed interest charged | — | — |
| Less: Repayment by way of loan capitalisation | — | (56,560) |
| At the end of year and included in non-current liabilities | 15,600 | 15,600 |

In prior years, three unsecured promissory notes in the aggregate principal amount of US\$35,000,000 (equivalent to approximately HK\$273,000,000) ("**Modified PN**") were issued by the Company to Cordia, a shareholder of the Company, pursuant to a conditional modification deed entered into between the Company and Cordia, the Modified PN was issued on 23 February 2010, and is non-interest-bearing and payable in one lump sum on maturity date of 25 May 2015. The principal amount of the Modified PN was US\$35,000,000 (equivalent to approximately HK\$273,000,000) and its fair value was US\$20,766,000 (equivalent to approximately HK\$161,973,000) as at the issue date. The fair value was determined by reference to a valuation carried out on the issue date by Vigers Appraisal and Consulting Limited. The effective interest rate of the Modified PN was determined to be 10.5% per annum.

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25. PROMISSORY NOTES PAYABLE *(Continued)*

During the year ended 31 March 2012, Cordia transferred part of the Modified PN with an aggregate principal amounts of US\$9,000,000 (equivalent to approximately HK\$70,200,000) to the then three independent third parties (the “**Three PN Holders**”).

In January 2013, Cordia transferred part of the Modified PN to the then two independent third parties (the “**Two PN Holders**”).

The Three PN Holders subsequently converted all the Modified PN into shares of the Company during year ended 31 March 2013.

On 20 February 2017, certain loan capitalisation agreements were signed with the Two PN Holders. Pursuant to the agreement, the Two PN Holders have agreed to, among other things, subscribe for new shares of the Company by applying the entire outstanding principals of the promissory notes as subscription monies at a price of HK\$0.325 per capitalisation share.

During the year and the previous year, no imputed interest was charged to profit or loss. The remaining outstanding Modified PN is classified as non-current liabilities and carried on the amortised cost basis until extinguished on redemption. As at the end of the reporting year, the carrying amount of the Modified PN was HK\$15,600,000 (2017: HK\$15,600,000).

On 12 June 2018, the remaining promissory notes holder of the Modified PN agreed to extend the maturity date of the promissory notes to 31 December 2019.

26. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

| | 2018 HK\$'000 | 2017 HK\$'000 |
|------------------------------------|------------------|------------------|
| At beginning of year | 1,474 | 1,166 |
| Provision during the year (Note 8) | 62 | 59 |
| Exchange realignments | (8) | 249 |
| At end of year | 1,528 | 1,474 |

The provision for close down, restoration and environmental costs related to the Russian mine.

Under the existing Russian law, management believed that there were no probable liabilities in respect of environmental liabilities that would have a material adverse effect on the financial position or results of operations of the Group. The Russian government, however, moved and may move further towards the adoption of more stringent environmental standards. Environmental liabilities were subject to considerable uncertainties which affected the Group's ability to estimate the ultimate costs of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to, coal mines and land development areas, whether operating, closed or sold, (ii) the extent of required clean-up efforts, (iii) varying costs of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites.

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26. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS *(Continued)*

The provision for close down, restoration and environmental cleanup costs is determined by management based on their best estimate of future expenditure by discounting the expected expenditure to their net present value. However, in so far as the effect on the land and the environment from the mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, restoration and environmental clean-up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions were updated accordingly.

27. DEFERRED TAXATION

The component of deferred tax liabilities recognised in the consolidated statement of financial position and movements during the current and prior year are as follows:

| | HK\$'000 |
|--|--------------|
| At 1 April 2016 | 8 |
| Charge to the consolidated financial statements (Note 7) | (3) |
| Exchange realignments | 1 |
| At 31 March 2017 and 1 April 2017 | 6 |
| Charge to the consolidated financial statements (Note 7) | 6,408 |
| Exchange realignments | 76 |
| At 31 March 2018 | 6,490 |

At 31 March 2018, the Group had unused Hong Kong tax losses of HK\$59,290,000 (2017: HK\$53,757,000) available for offset against future profits indefinitely. No deferred tax asset has been recognised as at 31 March 2018 and 2017 in respect of such losses and temporary differences due to the unpredictability of future profit streams of the respective group entities. There was no other significant unrecognised deferred tax as at 31 March 2018 and 2017.

Notes to the Financial Statements

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28. SHARE CAPITAL

| | Number of shares | | Nominal value | |
|---|------------------|---------------|------------------|------------------|
| | 2018 | 2017 | 2018 HK\$'000 | 2017 HK\$'000 |
| Authorised: | | | | |
| Ordinary shares of HK\$0.2 each (2017: HK\$0.2 each) | 5,000,000,000 | 5,000,000,000 | 1,000,000 | 1,000,000 |
| Issued and fully paid: | | | | |
| At beginning of year | 1,208,475,523 | 513,447,763 | 241,695 | 102,690 |
| Issue of shares upon new placement (Note (i) & (ii)) | — | 225,800,000 | — | 45,160 |
| Issue of shares upon capitalisation of loan (Note (iii)) | — | 469,227,760 | — | 93,845 |
| At beginning and at end of year | 1,208,475,523 | 1,208,475,523 | 241,695 | 241,695 |

All shares issued by the Company rank pari passu with the then existing shares in all respects.

Note:

- (i) On 24 October 2016, an aggregate of 102,600,000 new ordinary shares at a nominal value of HK\$0.2 each were issued by way of a placing at a subscription price of HK\$0.269 each to the then independent third parties. The aggregate nominal value was HK\$27,599,400. The closing market price as of 30 September 2016 was HK\$0.335 when the relevant placing agreement was entered into. The aggregate consideration was approximately HK\$26,315,000 (net of issue expenses that is a net price of approximately HK\$0.256 per share) of which HK\$20,520,000 was credited to share capital and HK\$5,795,000 was credited to share premium. The net proceeds were utilised for the repayment of loans and general working capital of the Group.
- (ii) On 24 January 2017, an aggregate of 123,200,000 new ordinary shares at nominal value of HK\$0.2 each were issued by way of a placing at a subscription price of HK\$0.217 each to the then independent third parties of no less than six individual investors of the Group. The aggregate nominal value was HK\$26,734,400. The closing market price as of 3 January 2017 was HK\$0.270 when the relevant placing agreement was entered into. The aggregate consideration was approximately HK\$25,481,000 (net of issue expenses that is a net price of approximately HK\$0.207 per share) of which HK\$24,640,000 was credited to share capital and HK\$841,000 was credited to share premium. The net proceeds were utilised for the repayment of loans and general working capital of the Group.
- (iii) On 20 February 2017, the completion of five loan capitalisation agreements with five creditors took place. Pursuant to the agreements, the creditors have agreed to, among other things, subscribe for new shares of the Company by applying the outstanding principals and accrued interests thereon as subscription monies. An aggregate of 469,227,760 capitalisation shares at a nominal value of HK\$0.2 each were issued at a subscription price of HK\$0.325 each to the then creditors to settle the loans and accrued interests due to them. The fair value of the shares on 20 February 2017 was HK\$0.27 per share. The consideration received net of issue expenses was approximately HK\$151,976,000 of which HK\$93,845,000 was credited to share capital and HK\$32,323,000 was credited to share premium. The remaining balance amount to HK\$25,807,527 foregone by the creditors was recognised in profit or loss as a gain on extinguishment of financial liabilities with equity instruments.

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29. SHARE OPTION SCHEME

The Company has two share option schemes.

Share option scheme approved and adopted by the Company on 19 October 2002 (the “Old Scheme”)

The Old Scheme were granted for the purpose of providing incentives or rewards to eligible persons for their contributions to the Group. Eligible persons of the Scheme include any full-time or part-time employees of the Company or any member of the Group, including any Directors, advisors or consultants of the Group. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 8 November 2002, and unless otherwise cancelled or amended, would remain in force for a period of 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the old Scheme must not exceed 30% of the shares in issue from time to time.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates (as defined under the Listing Rules), are subject to approval by all independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted for a period of 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercisable period of the share options granted is determined by the Directors, and the share options must be exercised in any event not later than 10 years or a shorter period as specified, from the date of grant. The Scheme does not require a minimum period for which the share options must be held or a performance target which must be achieved before the share options can be exercised.

The exercise price of the share options granted is not recorded in the statement of financial position of the Company nor of the Group until such time as the options are vested. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercisable date are deleted from the register of outstanding options.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

At the annual general meeting of the Company held on 31 August 2012, the shareholders of the Company resolved to terminate the Old Scheme. During the year ended 31 March 2012 and up to its termination, no option has been granted under the Old Scheme.

Upon termination of the Old Scheme, no further options may be granted but in all other respects the provisions of the Old Scheme shall remain in full force and effect. The outstanding options granted under the Old Scheme shall continue to be valid and exercisable in accordance with the terms of the Old Scheme.

Notes to the Financial Statements

For the year ended 31 March 2018

29. SHARE OPTION SCHEME (Continued)

Share option scheme approved and adopted by the Company on 19 October 2002 (the "Old Scheme") (Continued)

The following were the movements of share options outstanding under the Old Scheme during the year ended 31 March 2018:

| Name or category of participant | Number of shares issuable under options outstanding | | | Date of grant of share options | Exercisable period | Exercise price of share options HK\$ |
|---|---|---------------------------------|------------------------|--------------------------------|--------------------------|---|
| | At 1/4/2017 Number | Lapse during the year Number | At 31/3/2018 Number | | | |
| Employees and consultants other than directors | | | | | | |
| — In aggregate | 440,000 | — | 440,000 | 30/01/2012 | 30/01/2012 to 29/01/2022 | 0.355 |
| | 440,000 | — | 440,000 | | | |

The following were the movements of share options outstanding under the Old Scheme during the year ended 31 March 2017:

| Name or category of participant | Number of shares issuable under options outstanding | | | Date of grant of share options | Exercisable period | Exercise price of share options HK\$ |
|---|---|---------------------------------|------------------------|--------------------------------|--------------------------|---|
| | At 1/4/2017 Number | Lapse during the year Number | At 31/3/2018 Number | | | |
| Employees and consultants other than directors | | | | | | |
| — In aggregate | 440,000 | — | 440,000 | 30/01/2012 | 30/01/2012 to 29/01/2022 | 0.355 |
| | 440,000 | — | 440,000 | | | |

Note:

The exercise price of shares issuable under options outstanding at the end of the year was HK\$0.355 (2017: HK\$0.355) and their weighted average remaining contractual life was 3.83 years (2017: 4.83 years).

The total number of shares issuable under options outstanding as at 31 March 2018 was 440,000 (2017: 440,000) all of which were exercisable as at that date.

The weighted average share price at the date of exercise of share options exercised during the current year was HK\$Nil (2017: HK\$Nil).

At 31 March 2018, the Company had outstanding 440,000 (2017: 440,000) shares issuable under option granted under the Old Scheme, representing 0.04% (2017: 0.04%) of the Company's issued share capital. The exercise of the entire outstanding share options would, under the capital structure of the Company as at 31 March 2018, result in the issue of 440,000 (2017: 440,000) additional ordinary shares of HK\$0.2 (2017: HK\$0.2) each of the Company, additional share capital of HK\$88,000 (2017: HK\$88,000) and additional share premium of approximately HK\$68,000 (2017: HK\$68,000) (before issue expense). In addition, the amount attributable to the related share options of HK\$47,000 (2017: HK\$47,000) would be transferred from equity-settled share option reserve to the share premium account.

Notes to the Financial Statements

For the year ended 31 March 2018

29. SHARE OPTION SCHEME (Continued)

Valuation of share options

Based on a professional valuation conducted by Cushman, the aggregate fair value of the share options granted to employees and others providing similar services during the year ended 31 March 2012 was estimated at HK\$1,028,000 which was recognised as an equity-settled share option expense.

The above fair value was estimated as at the date of grant using a Binomial option pricing model, and took into account the terms and conditions upon which the options were granted. The following table lists the major inputs to the model used for valuation of share options granted during the year ended 31 March 2012:

| | 30 January 2012 |
|-----------------------------|-----------------|
| Exercise price of option | HK\$0.355 |
| Spot price of shares | HK\$0.355 |
| Expected volatility (%) | 57.11 |
| Risk-free interest rate (%) | 1.28 |
| Expected dividend yield (%) | 0.00 |

Share option scheme approved and adopted by the Company on 31 August 2012 (the "New Scheme")

Pursuant to the annual general meeting of the Company held on 31 August 2012, the shareholders of the Company approved and adopted the New Scheme and the termination of the Old Scheme. The New Scheme is in line with the prevailing requirements of Chapter 17 of the Listing Rules in relation to share option schemes.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme must not exceed 30% of the shares in issue from time to time.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates (as defined under the Listing Rules), are subject to approval by all independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted for a period of 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercisable period of the share options granted is determined by the Directors. The share options must be exercised in any event not later than 10 years or a shorter period as specified, from the date of grant. The New Scheme does not require a minimum period for which the share options must be held or a performance target which must be achieved before the share options can be exercised.

During the years ended 31 March 2018 and 2017, no option has been granted under the New Scheme since the adoption date to the date of this report.

Notes to the Financial Statements

For the year ended 31 March 2018

30. OPERATING LEASE COMMITMENTS

The Group leases its office premises and staff quarters under operating lease arrangements. Leases of these properties are negotiated for a terms all within two years. None of the leases includes contingent rentals.

At the end of the reporting year, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| Within one year | 1,373 | 1,759 |
| In the second to fifth years, inclusive | — | 1,277 |
| Over five years | — | — |
| | 1,373 | 3,036 |

31. CAPITAL COMMITMENTS

Details of capital expenditure contracted for but not provided in the financial statements are as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|-------------------------------|------------------|------------------|
| Exploration related contracts | 2,247 | 8,285 |

Notes to the Financial Statements

For the year ended 31 March 2018

32. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Save for those related party transactions disclosed elsewhere in these financial statements, details of transactions between the Group and other related parties are disclosed below.

- (i) On 21 October 2009, the Company and Cordia, a shareholder of the Company, entered into a new loan facilities letter which substitutes the old loan facilities letter entered into on 25 May 2009. Under the new agreement, Cordia had made available to the Company new loan facilities of up to US\$72,000,000 for the purpose of financing the development of the coal mine acquired from the acquisition of the Langfeld Group and the acquisition of further equity interest in the Lapi. The new loan facilities were made available to the Company during the period from the effective date of the new loan facilities on 14 December 2009 to the date falling two years from the date the Group obtained the Lot 2 mining licence. The new loan facilities therefore expired in November 2012.

The amount drawn by the Group under the above loan facilities amounted to approximately HK\$33,687,000 as at 31 March 2018 (2017: approximately HK\$33,039,000). In a letter to the Company dated 15 June 2017, Cordia undertook not to demand payment of any of the loans to the Group before 31 December 2018. Accordingly, this amount has been classified as a non-current liability as at 31 March 2018 and 2017. The balance is unsecured and bears interest at the rate of 0-8% per annum.

During the year, Cordia have agreed to waive a portion of the interest charged in respect of the amount of US\$15,000 (equivalent to approximately HK\$115,000) (2017: US\$11,000 (equivalent to approximately HK\$82,000)) on the amount due in view of the early settlement on the principal loan due to Cordia. The amount of interest waived in substance constituted a contribution from an equity participant of the Company and was credited directly to capital reserve within equity of the Company in the current year (Note 39b).

- (ii) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company entered into the following transactions with its related parties during the year:

| Name of Company | Relationship | Nature of transaction | 2018 HK\$'000 | 2017 HK\$'000 |
|----------------------------|---------------|---------------------------|------------------|------------------|
| Cordia Global Limited | Shareholder | Interest expenses thereto | 472 | 550 |
| First Glory Limited | Shareholder | Interest expenses thereto | 177 | — |
| Pioneer Centre Limited | Shareholder | Interest expenses thereto | 2,427 | — |
| Lim Ho Sok | Ex-director | Interest expenses thereto | — | 620 |
| Hong Sang Joon | Director | Interest expenses thereto | — | 94 |
| Goldwyn Management Limited | Related party | Interest expenses thereto | — | 1,618 |

- (iii) Members of key management personnel during the year comprised only of the executive directors of the Company whose remuneration is set out in Note 9(a).

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS

(i) The Company/its Subsidiary as the Defendant

Legal Proceedings Taken By Former Shareholders of a Russian Subsidiary

A former shareholder, Tannagashev Ilya Nikolaevich (the “**First Claimant**”), of the Group’s Russian subsidiary company, LLC “Shakhta Lapichevskaya” (“**Lapi**”), submitted a claim to the Russian Court in March 2012 for his share in the final 4th stage payment amounting to US\$673,400 (approximately HK\$5,252,520) (the “**First Claim**”) in relation to the sale and purchase of 30% equity interest in Lapi in 2009. The Russian Court in August 2012 passed a judgment in favour of the First Claimant. The Group had fully provided for the full amount of the First Claim in the financial statements for the 6 months ended 30 September 2012. By three partial payments, the Group fully settled the First Claim in November 2013, and the case was thus resolved.

In March 2013, the other two former shareholders of Lapi, namely, Demeshonok Konstantin Yur’evich (the “**Second Claimant**”) and Kochkina Ludmila Dmitrievna (the “**Third Claimant**”) submitted their claims to the Russian Court for their respective shares in the final 4th stage payment in relation to the sale and purchase of 30% equity interest in Lapi in 2009. The Second Claimant claimed US\$288,600 (approximately HK\$2,251,080) (the “**Second Claim**”) and the Third Claimant claimed US\$338,000 (approximately HK\$2,636,400) (the “**Third Claim**”). The Group had fully provided for the full amount of both the Second Claim and the Third Claim in the financial statements for the year ended 31 March 2013.

The Group and the Second Claimant entered into an amicable agreement dated 11 July 2013 to settle the Second Claim by three instalments. In February 2014, US\$100,000 (approximately HK\$780,000) was paid. The Second Claimant threatened to foreclose the shareholdings in Lapi as the Group delayed in settlement of the remaining outstanding amount of the Second Claim. As of 31 March 2018, the outstanding amount of the Second Claim is US\$188,600 (approximately HK\$1,471,080), which had been fully provided for since 31 March 2013.

The Group and the Third Claimant entered into an amicable agreement dated 13 May 2013 to settle the Third Claim by three instalments. In February 2014, US\$100,000 (approximately HK\$780,000) was paid. The Third Claimant also threatened to foreclose the shareholdings in Lapi as the Group delayed in settlement of the remaining outstanding amount of the Third Claim. As of 31 March 2018, the outstanding amount of the Third Claim is US\$238,000 (approximately HK\$1,856,400), which had been also fully provided for since 31 March 2013.

HCA 672 of 2013

As announced by the Company on 30 April 2013, Cordia Global Limited (“**Cordia**”) on 23 April 2013 issued a writ of summons in the High Court of Hong Kong (HCA 672 of 2013) against certain parties (including certain shareholders of the Company) and the Company. Cordia also took out an inter partes summons to seek, inter alia, an injunction against certain persons/parties (including certain shareholders of the Company) to restrain them from disposing their shares in the Company and/or exercising their voting rights under those shares.

On 26 April 2013 at the hearing of the inter partes summons, the High Court of Hong Kong granted an interim injunction restraining, among other things, certain shareholders of the Company from (a) disposing of or in any way dealing with, and (b) exercising voting rights of, their respective shares in the Company until further order (the “**Injunction Order**”).

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 672 of 2013 (Continued)

As further announced by the Company on 16 August 2013, some of the defendants therein subsequently applied to vary the Injunction Order but the same was dismissed by the Court on 23 September 2013 (as announced by the Company on 16 October 2013).

As further announced by the Company on 14 May 2015, the parties therein applied to the Court to discharge the Injunction Order and it was approved by the Court on 11 May 2015. In other words, the 3rd defendant (Keystone Global Co., Ltd.), the 4th defendant (Master Impact Inc.), the 6th defendant (Skyline Merit Limited), the 7th defendant (Park Seung Ho), the 8th defendant (Kim Chul) and the 9th defendant (Wonang Industries Co., Ltd.) therein are no longer restrained from (a) disposing of or in any way dealing with; and (b) exercising voting rights of their respective number of shares in the Company. The proceedings has been dormant since May 2015.

The Company is sued as a nominal defendant only as the disputes concern the ownership of the shares in the Company. Preliminary assessment reveals that the legal action is unlikely to have any unfavourable outcome on the Company.

HCCW 392 of 2015 and CACV 49 of 2017

As announced by the Company on 21 December 2015, the Company was served on 18 December 2015 a petition made by Tam Wing Yuen, Chow Doi Yik Caniel and Zhi Charles to wind up the Company under the provision of the Companies (Winding-Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) in the High Court of Hong Kong under action number HCCW 392 of 2015.

A settlement proposal offered by two of the petitioners (Tam Wing Yuen and Chow Doi Yik Caniel) to dismiss their winding up petition has been accepted by the Company in November 2016 on the conditions that, inter alia, Tam Wing Yuen and Chow Doi Yik Caniel would have to pay the appropriate related legal costs to the Company. However, Zhi Charles continued the petition on his own.

As announced by the Company on 27 January 2017, at a Court hearing held on 25 January 2017, the petition made by Zhi Charles to wind up the Company was struck out by the Court with costs payable by Zhi Charles on an indemnity basis.

As announced by the Company on 31 March 2017, the Company received a Notice of Appeal from Zhi Charles on 22 February 2017 to appeal at the Court of Appeal of the High Court of Hong Kong under action number CACV 49 of 2017 against the order given by the Court of First Instance on 25 January 2017 to strike out his petition to wind up the Company. The Court on 28 March 2017 confirmed that the appeal of Zhi Charles under CACV 49 of 2017 would not fall within the scope of the Court Order in respect of the Company's legal action against him given under HCMP 443 of 2015 (details of such Court Order was announced by the Company on 29 June 2016).

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCCW 392 of 2015 and CACV 49 of 2017 (Continued)

The Company obtained a bankruptcy order against Zhi Charles on 26 April 2017 under bankruptcy number HCB 5395 of 2016. The Official Receiver is now the provisional trustee of the property of Zhi Charles and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Zhi Charles to continue with any of the proceedings (including this CACV 49 of 2017), Zhi Charles does not have locus and ceases to have any right to represent in any of the proceedings against the Company and the Company's Directors in normal circumstances. Please refer to the announcement of the Company on 5 May 2017.

As announced by the Company on 25 August 2017, the Court ordered that, unless any party indicated by 9 August 2017 in writing of an objection to the dismissal of the appeal, the appeal would be dismissed on 10 August 2017 for want of prosecution without further order and that Zhi Charles (as the appellant) would bear the costs of the respondents (including the Company) in the appeal. The Court was not aware of any written objection to the dismissal of the appeal made by 9 August 2017, and the Company therefore trusted that Zhi Charles's said appeal was dismissed by the Court on 10 August 2017.

HCA 584 of 2016

As announced by the Company on 14 March 2016, the Company on 8 March 2016 received a writ of summons issued by Zhi Charles (as the plaintiff) in the High Court of Hong Kong (HCA 584 of 2016) against the Company and certain other parties, including former Directors of the Company. The plaintiff is seeking various orders on the Company and other defendants in respect of, inter alia, the Company's very substantial acquisition in relation to the Russian coal mines in 2008, and certain technical reports and valuation reports relating to the Russian coal mines.

As announced by the Company on 29 June 2016, Zhi Charles is subject to a Court Order in respect of the Company's legal action against him under action number HCMP 443 of 2015. Pursuant to such Court Order, there has been a stay of all further proceedings as against the Company in action HCA 584 of 2016.

The Company obtained a bankruptcy order against Zhi Charles on 26 April 2017 under bankruptcy number HCB 5395 of 2016. The Official Receiver is now the provisional trustee of the property of Zhi Charles and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Zhi Charles to continue with any of the proceedings (including this HCA 584 of 2016), Zhi Charles does not have locus and ceases to have any right to represent in any of the proceedings against the Company and the Company's Directors in normal circumstances. Please refer to the announcement of the Company on 5 May 2017.

Hearing for strike out application by the Company and a former Director of the Company has thus been pending on the views of the Official Receiver.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 1160 of 2016

As announced by the Company on 11 May 2016, the Company on 4 May 2016 received a writ of summons issued by Zhi Charles (as the plaintiff) in the High Court of Hong Kong (HCA 1160 of 2016) against the Company and certain other parties, including former Directors of the Company. The plaintiff is seeking various orders on the Company and other defendants in respect of, inter alia, certain accounting treatments of the Company's Russian coal mines and certain audit reports on the Company's consolidated financial statements.

As announced by the Company on 29 June 2016, the plaintiff on 20 June 2016 wholly discontinued his action against the Company in HCA 1160 of 2016.

The Company obtained a bankruptcy order against Zhi Charles on 26 April 2017 under bankruptcy number HCB 5395 of 2016. The Official Receiver is now the provisional trustee of the property of Zhi Charles and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Zhi Charles to continue with any of the proceedings (including this HCA 1160 of 2016), Zhi Charles does not have locus and ceases to have any right to represent in any of the proceedings against the Company's Directors in normal circumstances. Please refer to the announcement of the Company on 5 May 2017.

Hearing for strike out application by the former Director of the Company has thus been pending on the views of the Official Receiver.

HCA 1195 of 2016

As announced by the Company on 11 May 2016, the Company on 6 May 2016 received a writ of summons issued by Zhi Charles (as the plaintiff) in the High Court of Hong Kong (HCA 1195 of 2016) against the Company and certain other parties, including former Directors of the Company. The plaintiff is seeking various orders on the Company and other defendants in respect of, inter alia, certain technical report and certain valuation report on the Company's Russian coal mines.

As announced by the Company on 29 June 2016, Zhi Charles is subject to a Court Order in respect of the Company's legal action against him under action number HCMP 443 of 2015. Pursuant to such Court Order, there has been a stay of all further proceedings as against the Company in action HCA 1195 of 2016.

As announced by the Company on 23 March 2017, the plaintiff wholly discontinued his actions against the former Director of the Company in HCA 1195 of 2016.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 1195 of 2016 (Continued)

The Company obtained a bankruptcy order against Zhi Charles on 26 April 2017 under bankruptcy number HCB 5395 of 2016. The Official Receiver is now the provisional trustee of the property of Zhi Charles and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Zhi Charles to continue with any of the proceedings (including this HCA 1195 of 2016), Zhi Charles does not have locus and ceases to have any right to represent in any of the proceedings against the Company and the Company's Directors in normal circumstances. Please refer to the announcement of the Company on 5 May 2017.

HCA 1618 of 2016

As announced by the Company on 29 June 2016, the Company on 22 June 2016 received a writ of summons issued by Zhi Charles (as the plaintiff) in the High Court of Hong Kong (HCA 1618 of 2016) against the Company and certain other parties. The plaintiff is seeking various orders on the Company and other defendants in respect of, inter alia, the investigation on the Company's mining assets, the Company's financial statements, certain securities issued by the Company, and the trading of the Company's shares.

The Company obtained a bankruptcy order against Zhi Charles on 26 April 2017 under bankruptcy number HCB 5395 of 2016. The Official Receiver is now the provisional trustee of the property of Zhi Charles and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Zhi Charles to continue with any of the proceedings (including this HCA 1618 of 2016), Zhi Charles does not have locus and ceases to have any right to represent in any of the proceedings against the Company in normal circumstances. Please refer to the announcement of the Company on 5 May 2017.

Strike out application by the Company is being considered, pending on the views of the Official Receiver.

HCA 2137 of 2016

As announced by the Company on 24 August 2016, Zhi Charles (as the plaintiff) on 17 August 2016 issued a writ of summons in the High Court of Hong Kong under action number HCA 2137 of 2016 to certain parties, including the two existing Directors and certain former Directors of the Company. For avoidance of doubt, the Company is not a defendant in such action. The plaintiff is seeking various orders on the defendants in respect of, inter alia, the Third Convertible Note of the Company, the New Technical Report of 11 August 2016 on Lot 2 of the Russian coal mines, certain loans and loan facilities made available to the Company and the audit reports of the Company.

As announced by the Company on 13 February 2017, the plaintiff wholly discontinued his actions against an existing Director of the Company in HCA 2137 of 2016.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 2137 of 2016 (Continued)

The Company obtained a bankruptcy order against Zhi Charles on 26 April 2017 under bankruptcy number HCB 5395 of 2016. The Official Receiver is now the provisional trustee of the property of Zhi Charles and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Zhi Charles to continue with any of the proceedings (including this HCA 2137 of 2016), Zhi Charles does not have locus and ceases to have any right to represent in any of the proceedings against the Company's Directors in normal circumstances. Please refer to the announcement of the Company on 5 May 2017.

Strike out application by an existing Director of the Company is being considered, pending on the views of the Official Receiver.

HCA 2380 of 2016

As announced by the Company on 21 September 2016, Zhi Charles (as the plaintiff) on 14 September 2016 issued a writ of summons in the High Court of Hong Kong under action number HCA 2380 of 2016 to certain parties, including the two existing Directors and certain former Directors of the Company. For avoidance of doubt, the Company is not a defendant in such action. The plaintiff is seeking various orders on the defendants in respect of, inter alia, the New Technical Report conducted by the New Technical Expert engaged by the Company and certain agreements relating to the Third Convertible Note and certain proposed loan capitalizations transactions as disclosed in the Company's announcement of 1 December 2015.

As announced by the Company on 13 February 2017, the plaintiff wholly discontinued his actions against a former Director of the Company in HCA 2380 of 2016.

The Company obtained a bankruptcy order against Zhi Charles on 26 April 2017 under bankruptcy number HCB 5395 of 2016. The Official Receiver is now the provisional trustee of the property of Zhi Charles and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Zhi Charles to continue with any of the proceedings (including this HCA 2380 of 2016), Zhi Charles does not have locus and ceases to have any right to represent in any of the proceeding against the Company's Directors in normal circumstances. Please refer to the announcement of the Company on 5 May 2017.

Strike out application by the existing Directors of the Company is being considered, pending on the views of the Official Receiver.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 2397 of 2016

As announced by the Company on 27 September 2016, the Company received on 20 September 2016 a writ of summons issued by Zhi Charles (as the plaintiff) in the High Court of Hong Kong under action number HCA 2397 of 2016 to certain parties, including the two existing Directors of the Company. For avoidance of doubt, the Company is not a defendant in such action. The plaintiff is seeking various orders on the defendants in respect of, inter alia, the Company's audit reports of 2013, 2014 and 2015.

As announced by the Company on 13 February 2017, the plaintiff wholly discontinued his actions against a former Director of the Company in HCA 2397 of 2016.

The Company obtained a bankruptcy order against Zhi Charles on 26 April 2017 under bankruptcy number HCB 5395 of 2016. The Official Receiver is now the provisional trustee of the property of Zhi Charles and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Zhi Charles to continue with any of the proceedings (including this HCA 2397 of 2016), Zhi Charles does not have locus and ceases to have any right to represent in any of the proceedings against the Company's Directors in normal circumstances. Please refer to the announcement of the Company on 5 May 2017.

Hearing for strike out application by the existing Directors of the Company has thus been pending on the views of the Official Receiver.

HCA 2633 of 2016

As announced by the Company on 18 October 2016, the Company received on 11 October 2016 a writ of summons issued by Kim Sungho (as the plaintiff) in the High Court of Hong Kong under action number HCA 2633 of 2016 to certain parties, including the Company and the former Directors of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, disclosure of interests in the shares of the Company by certain alleged investors, certain loans made available to the Company, and the Third Convertible Note issued by the Company.

As announced by the Company on 16 March 2017, the plaintiff wholly discontinued his actions against a former Director of the Company in HCA 2633 of 2016.

The Company obtained a bankruptcy order against Kim Sungho on 7 June 2017 under bankruptcy number HCB 377 of 2017. The Official Receiver is now the provisional trustee of the property of Kim Sungho and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Kim Sungho to continue with any of the proceedings (including this HCA 2633 of 2016), Kim Sungho does not have locus and ceases to have any right to represent in any of the proceedings against the Company and the Company's Directors in normal circumstances. Please refer to the announcement of the Company on 19 June 2017.

The Company is taking legal advice in respect of such legal action, pending on the views of the Official Receiver.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 3148 of 2016

As announced by the Company on 14 December 2016, the Company received on 1 December 2016 a writ of summons issued by Kim Sungho (as the plaintiff) in the High Court of Hong Kong under action number HCA 3148 of 2016 to certain parties, including the Company and the two existing Directors of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, certain alleged transfers of funds for alleged payments of expenses in relation to the resumption of trading in the Company's shares on The Stock Exchange of Hong Kong Limited and the Company's proposed loan capitalizations transactions as disclosed in the Company's announcement of 1 December 2015.

As announced by the Company on 13 February 2017, the Company received a notice of discontinuance on 2 February 2017 from the plaintiff that he wholly discontinued his actions against the two existing Directors of the Company in the legal action HCA 3148 of 2016.

The Company obtained a bankruptcy order against Kim Sungho on 7 June 2017 under bankruptcy number HCB 377 of 2017. The Official Receiver is now the provisional trustee of the property of Kim Sungho and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Kim Sungho to continue with any of the proceedings (including this HCA 3148 of 2016), Kim Sungho does not have locus and ceases to have any right to represent in any of the proceedings against the Company in normal circumstances. Please refer to the announcement of the Company on 19 June 2017.

The Company is taking legal advice in respect of such legal action, pending on the views of the Official Receiver.

HCA 3160 of 2016

As announced by the Company on 14 December 2016, the Company received on 2 December 2016 a writ of summons issued by Kim Sungho (as the plaintiff) in the High Court of Hong Kong under action number HCA 3160 of 2016 to certain parties, including the Company and the two existing Directors of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, certain accounting information and certain valuation reports used by the Company.

The Company obtained a bankruptcy order against Kim Sungho on 7 June 2017 under bankruptcy number HCB 377 of 2017. The Official Receiver is now the provisional trustee of the property of Kim Sungho and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Kim Sungho to continue with any of the proceedings (including this HCA 3160 of 2016), Kim Sungho does not have locus and ceases to have any right to represent in any of the proceedings against the Company and the Directors of the Company in normal circumstances. Please refer to the announcement of the Company on 19 June 2017.

The Company and the two existing Directors of the Company are taking legal advice in respect of such legal action, pending on the views of the Official Receiver.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 3172 of 2016

As announced by the Company on 13 December 2016, the Company received on 5 December 2016 a writ of summons issued by Joung Jong Hyun (as the plaintiff) in the High Court of Hong Kong under action number HCA 3172 of 2016 to certain parties, including the Company and a former Director of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, the Company's proposed loan capitalizations transactions as disclosed in the Company's announcement of 1 December 2015.

As announced by the Company on 23 May 2017, pursuant to the Order made by the Court on 12 May 2017, the plaintiff's claim against the Company and the former Director of the Company in the action HCA 3172 of 2016 was struck out by the Court with costs payable by the plaintiff to the Company.

HCA 3190 of 2016

As announced by the Company on 14 December 2016, the Company received on 6 December 2016 a writ of summons issued by Kim Sungho (as the plaintiff) in the High Court of Hong Kong under action number HCA 3190 of 2016 to certain parties, including the Company and an existing Director of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, the use of certain technical and valuation reports by the Company.

As announced by the Company on 13 February 2017, the Company received a notice of discontinuance on 2 February 2017 from the plaintiff that he wholly discontinued his actions against the existing Director of the Company in the legal action HCA 3190 of 2016.

The Company obtained a bankruptcy order against Kim Sungho on 7 June 2017 under bankruptcy number HCB 377 of 2017. The Official Receiver is now the provisional trustee of the property of Kim Sungho and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Kim Sungho to continue with any of the proceedings (including this HCA 3190 of 2016), Kim Sungho does not have locus and ceases to have any right to represent in any of the proceedings against the Company in normal circumstances. Please refer to the announcement of the Company on 19 June 2017.

The Company is taking legal advice in respect of such legal action, pending on the views of the Official Receiver.

HCA 3192 of 2016

As announced by the Company on 13 December 2016, the Company received on 6 December 2016 a writ of summons issued by Lee Moonkyu (as the plaintiff) in the High Court of Hong Kong under action number HCA 3192 of 2016 to certain parties, including the Company and an existing Director of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, certain technical reports issued for the Company.

As announced by the Company on 19 September 2017, the plaintiff had previously wholly discontinued his actions against the existing Director of the Company, and pursuant to the Order made by the Court on 12 September 2017, the plaintiff's claim against the Company in the action HCA 3192 of 2016 was struck out and dismissed by the Court with costs payable by the plaintiff.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 3324 of 2016

As announced by the Company on 29 December 2016, the Company received on 16 December 2016 a writ of summons issued by Lim Hang Young (as the plaintiff) in the High Court of Hong Kong under action number HCA 3324 of 2016 to certain parties, including the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, certain alleged transfers of funds.

The Company has taken out a strike out application and will proceed to fix the date for substantive hearing.

HCA 3366 of 2016

As announced by the Company on 29 December 2016, the Company received on 21 December 2016 a writ of summons issued by Kim Sungho (as the plaintiff) in the High Court of Hong Kong under action number HCA 3366 of 2016 to certain parties, including the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, certain alleged transfers of funds and the Company's transactions with a creditor.

As announced by the Company on 23 May 2017, pursuant to the Order made by the Court on 12 May 2017, the plaintiff's claim against the Company in the action HCA 3366 of 2016 was struck out by the Court with costs payable by the plaintiff to the Company.

HCA 47 of 2017

As announced by the Company on 16 January 2017, the Company received on 9 January 2017 a writ of summons issued by Kim Sungho (as the plaintiff) in the High Court of Hong Kong under action number HCA 47 of 2017 to certain parties, including the Company and a former Director of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, certain technical reports on the Company's Russian coal mines, the First Convertible Note and the Third Convertible Note.

The Company obtained a bankruptcy order against Kim Sungho on 7 June 2017 under bankruptcy number HCB 377 of 2017. The Official Receiver is now the provisional trustee of the property of Kim Sungho and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Kim Sungho to continue with any of the proceedings (including this HCA 47 of 2017), Kim Sungho does not have locus and ceases to have any right to represent in any of the proceedings against the Company and the Directors of the Company in normal circumstances. Please refer to the announcement of the Company on 19 June 2017.

The Company is taking legal advice in respect of such legal action, pending on the views of the Official Receiver.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCMP 701 of 2017

As announced by the Company on 16 May 2017, the Company received on 2 May 2017 originating summons issued by Kim Sungho, Cho Seong Woo, Kim Kyungsoo, Lim Hang Young and Joung Jong Hyun (as the plaintiffs) in the High Court of Hong Kong under action number HCMP 701 of 2017 on 27 March 2017 to certain parties, including the Company, a former Director of the Company and Grandvest International Limited (a subsidiary of the Company). The plaintiffs are seeking Court orders for the Company to produce to them, inter alia, information about the new technical report issued to the Company on 11 August 2016.

The Company obtained a bankruptcy order against Kim Sungho on 7 June 2017 under bankruptcy number HCB 377 of 2017. The Official Receiver is now the provisional trustee of the property of Kim Sungho and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Kim Sungho to continue with any of the proceedings (including this HCA 47 of 2017), Kim Sungho does not have locus and ceases to have any right to represent in any of the proceedings against the Company and the Directors of the Company in normal circumstances. Please refer to the announcement of the Company on 19 June 2017.

The Company and Grandvest International Limited are taking legal advice in respect of such legal action, and in respect of the actions taken by Kim Sungho pending on the views of the Official Receiver.

HCA 724 of 2017

As announced by the Company on 5 April 2017, the Company received on 27 March 2017 a writ of summons issued by Hwang Dong Jin (as the plaintiff) in the High Court of Hong Kong under action number HCA 724 of 2017 to certain parties, including the Company and a former Director of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, certain shareholdings of the Company and certain loan capitalizations of the Company.

As announced by the Company on 4 August 2017, the Company received a notice of discontinuance on 27 June 2017 from the plaintiff that he wholly discontinued his actions against the Company and the former Director of the Company in the legal action HCA 724 of 2017.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 808 of 2017

As announced by the Company on 20 April 2017, the Company received on 3 April 2017 a writ of summons issued by Lee Jaeseong (as the plaintiff) in the High Court of Hong Kong under action number HCA 808 of 2017 to certain parties, including the Company and two existing Directors of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, a prior loan facility made available to the Company.

As announced by the Company on 4 August 2017, the Company received a notice of discontinuance on 27 June 2017 from the plaintiff that he wholly discontinued his actions against the Company and the two existing Directors of the Company in the legal action HCA 808 of 2017.

HCA 809 of 2017

As announced by the Company on 20 April 2017, the Company received on 3 April 2017 a writ of summons issued by Desmond Ouma Ogalo (as the plaintiff) in the High Court of Hong Kong under action number HCA 809 of 2017 to certain parties, including the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, certain loans and certain shares issued pursuant to the Loan Capitalizations of the Company.

As announced by the Company on 4 August 2017, the Company received a notice of discontinuance on 27 June 2017 from the plaintiff that he wholly discontinued his action against the Company in the legal action HCA 809 of 2017.

HCA 814 of 2017

As announced by the Company on 20 April 2017, the Company received on 5 April 2017 a writ of summons issued by Kim Sungho (as the plaintiff) in the High Court of Hong Kong under action number HCA 814 of 2017 to certain parties, including the Company and a former Director of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, a technical report issued to the Company and certain shares issued pursuant to certain loan capitalizations of the Company.

The Company obtained a bankruptcy order against Kim Sungho on 7 June 2017 under bankruptcy number HCB 377 of 2017. The Official Receiver is now the provisional trustee of the property of Kim Sungho and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Kim Sungho to continue with any of the proceedings (including this HCA 814 of 2017), Kim Sungho does not have locus and ceases to have any right to represent in any of the proceedings against the Company and the Directors of the Company in normal circumstances. Please refer to the announcement of the Company on 19 June 2017.

The Company is taking legal advice in respect of such legal action, pending on the views of the Official Receiver.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 815 of 2017

As announced by the Company on 20 April 2017, the Company received on 5 April 2017 a writ of summons issued by Iqbal Singh Nagi (as the plaintiff) in the High Court of Hong Kong under action number HCA 815 of 2017 to certain parties, including the Company and two former Directors of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, certain shares issued pursuant to certain loan capitalization of the Company.

As announced by the Company on 4 August 2017, the Company received a notice of discontinuance on 27 June 2017 from the plaintiff that he wholly discontinued his actions against the Company and a former Director of the Company in the legal action HCA 815 of 2017.

HCA 853 of 2017

As announced by the Company on 20 April 2017, the Company received on 11 April 2017 a writ of summons issued by Jeremiah Kiprotich (as the plaintiff) in the High Court of Hong Kong under action number HCA 853 of 2017 to certain parties, including the Company and a former Director of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, the Third Convertible Note issued by the Company.

As announced by the Company on 4 August 2017, the Company received a notice of discontinuance on 27 June 2017 from the plaintiff that he wholly discontinued his actions against the Company and the former Director of the Company in the legal action HCA 853 of 2017.

HCA 1004 of 2017

As announced by the Company on 5 May 2017, the Company received on 26 April 2017 a writ of summons issued by Bose Shankar (as the plaintiff) in the High Court of Hong Kong under action number HCA 1004 of 2017 to certain parties, including the Company and a former Director of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, the Third Convertible Note issued by the Company.

As announced by the Company on 4 August 2017, the Company received a notice of discontinuance on 27 June 2017 from the plaintiff that he wholly discontinued his actions against the Company and the former Director of the Company in the legal action HCA 1004 of 2017.

HCA 1050 of 2017

As announced by the Company on 16 May 2017, the Company received on 2 May 2017 a writ of summons issued by Kim Sungho (as the plaintiff) in the High Court of Hong Kong under action number HCA 1050 of 2017 to certain parties, including Grandvest International Limited (a subsidiary of the Company) and a former Director of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, certain technical report issued to the Company.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 1050 of 2017 (Continued)

The Company obtained a bankruptcy order against Kim Sungho on 7 June 2017 under bankruptcy number HCB 377 of 2017. The Official Receiver is now the provisional trustee of the property of Kim Sungho and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Kim Sungho to continue with any of the proceedings (including this HCA 1050 of 2017), Kim Sungho does not have locus and ceases to have any right to represent in any of the proceedings against the Company and the Directors of the Company in normal circumstances. Please refer to the announcement of the Company on 19 June 2017.

Grandvest International Limited is taking legal advice in respect of such legal action, pending on the views of the Official Receiver.

HCA 1071 of 2017

As announced by the Company on 12 May 2017, the Company received on 26 April 2017 a writ of summons issued by Daily Loyal Limited ("**Daily Loyal**") (as the plaintiff) in the High Court of Hong Kong under action number HCA 1071 of 2017 to two parties, namely, the Company and a former Director of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, the Third Convertible Note issued by the Company.

As announced by the Company on 13 April 2017, Daily Loyal and the Company entered into the undated Amendment Agreement, among other things, to (i) extend the maturity dates of the Outstanding Third Convertible Note for at least another two years before the Outstanding Third Convertible Note becomes current liability of the Company; (ii) convert the Outstanding Third Convertible Note except for the principal amount of US\$60,000,000 (equivalent to approximately HK\$468,000,000) at the conversion price of HK\$48 per Share within three business days upon signing of the Amendment Agreement; and (iii) agree on no demand of the remaining outstanding principal amount of the Outstanding Third Convertible Note on the maturity dates.

However, Daily Loyal (as the plaintiff) subsequently alleged that its sole director (Mr. Chan Chun Wah) signed the Amendment Agreement in August 2016 (leaving the document undated, the "**Undated Amendment Agreement**") based on an understanding that such document only served as a memorandum for discussion purpose only and was not intended to be binding, and that the Company and Hong Sang Joon (a former Director of the Company) would not fill in the date of the document. Besides, Daily Loyal was of the view that the validity of the Undated Amendment Agreement was contrary to the Additional Agreement entered into by it with Cordia Global Limited ("**Cordia**"), Choi Sungmin, Grandvest International Limited (a subsidiary of the Company) and the Company on 22 August 2016.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 1071 of 2017 (Continued)

Daily Loyal also alleged that (i) the placing and issue of new Shares by the Company as announced by the Company on 24 October 2016; (ii) the placing and issue of new Shares by the Company as announced by the Company on 24 January 2017; and (iii) the issue of new Shares upon loan capitalizations as announced by the Company on 20 February 2017 were conducted without the prior consent or authorization of Daily Loyal and were in breach of a convertible note agreement (the “**Convertible Note Agreement**”) dated 3 April 2013 between the Company and Cordia in relation to the Third Convertible Note.

Daily Loyal (as the plaintiff) is seeking, among other things, (i) damages for breach of the Convertible Note Agreement and/or the Additional Agreement; (ii) a declaration that the Undated Amendment Agreement and the dated Amendment Agreement were null and void ab initio; and (iii) alternatively, a declaration that the dated Amendment Agreement and/or the Undated Amendment Agreement has been rescinded.

As announced by the Company on 16 June 2017, the Company received a letter from Daily Loyal's legal advisers on 9 June 2017. In that letter, Daily Loyal alleged that it had sold the Outstanding Third Convertible Note as to an aggregate principal amount of US\$103,000,000 (approximately HK\$803,400,000) and therefore it currently held the Outstanding Third Convertible Note as to a principal amount of US\$297,390,000 (approximately HK\$2,319,642,000) (the “**Alleged Current Outstanding Amount**”). Further, Daily Loyal also demanded the Company to (i) repay the Alleged Current Outstanding Amount within 14 days from 9 June 2017; (ii) pay any interest accrued in full; and (iii) indemnify Daily Loyal for all costs and expenses incurred, among other things, for collection of the Alleged Current Outstanding Amount and the enforcement of the Convertible Note Agreement. The primary ground relied upon by Daily Loyal was that the Company did not obtain its prior consent or authorization in the previous placing and issue of new Shares and the issue of new Shares upon loan capitalizations, that was one of Daily Loyal's allegations set out in the announcement of 12 May 2017.

The Company and the former Director of the Company have filed their defence and counterclaim on 18 July 2017. The plaintiff has filed the reply and defence to counterclaim on 9 November 2017.

As announced by the Company on 12 March 2018, the Company received a demand letter from Daily Loyal's legal advisers on 6 March 2018 where Daily Loyal demanded the Company to repay US\$297,390,000 (approximately HK\$2,319,642,000) (which was alleged by Daily Loyal to be the current outstanding principal amount of the portion of the Third Convertible Note held by Daily Loyal) together with any interest accrued in full and in cash on or before 3 April 2018.

Up to the date of this report, Daily Loyal has not taken any steps further after 3 April 2018.

The Company is taking further legal advice in respect of such legal action.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 1163 of 2017

As announced by the Company on 23 May 2017, the Company received on 17 May 2017 a writ of summons issued by Lim Hang Young (as the plaintiff) in the High Court of Hong Kong under action number HCA 1163 of 2017 to certain parties, including the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, the Third Convertible Note issued by the Company.

As announced by the Company on 6 November 2017, pursuant to the Order made by the Court on 27 October 2017, the plaintiff's claim against the Company in the action HCA 1163 of 2017 was struck out and dismissed by the Court with costs payable by the plaintiff.

HCA 1521 of 2017

As announced by the Company on 10 July 2017, the Company received a writ of summons issued by Lim Hang Young (as plaintiff) in the Court of First Instance of the High Court of Hong Kong under action number HCA 1521 of 2017 on 28 June 2017 to certain parties, including the Company and a former Director of the Company. The plaintiff is seeking various declaratory reliefs against the defendants in respect of, inter alia, the Third Convertible Note issued by the Company.

The Company is taking legal advice in respect of such legal action and will take out a strike out application in due course.

HCA 1777 of 2017

As announced by the Company on 8 August 2017, the Company received a writ of summons issued by Kim Jinyoung (as the plaintiff) in the Court of First Instance of the High Court of Hong Kong under the action number HCA 1777 of 2017 on 31 July 2017 to certain parties, including the Company, two subsidiaries of the Company (namely, Grandvest International Limited and SMG Development Limited) and an existing Director of the Company. The plaintiff is seeking various court orders in respect of, inter alia, certain technical reports and certain valuations on the Company's Russian coal mines, the convertible notes issued by the Company and the loan capitalisations conducted by the Company in February 2017.

The Company, two subsidiaries of the Company and the three existing Director of the Company are taking legal advice in respect of such legal action and will take out a strike out application in due course.

HCA 2394 of 2017

The Company received on 17 October 2017 a writ of summons issued by 山西滙豐興業燃氣集團有限公司 (as the plaintiff) in the Court of First Instance of the High Court of Hong Kong under action number HCA 2394 of 2017 to certain parties, including the Company. The plaintiff claimed that the Company failed to make a loan repayment (with interests) to the plaintiff and is seeking claims against the defendants.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

HCA 2394 of 2017 (Continued)

Through the solicitors of the Company, settlement proposals were offered by the Company to the plaintiff through its solicitors. The Company on 15 November 2017 made full repayment of loan principal and related interests to the plaintiff, and the Company takes the view that the substantial claim of such legal action has been resolved.

HCA 2501 of 2017

As announced by the Company on 14 November 2017, the Company on 3 November 2017 received a writ of summons issued by China Panda Limited (as the 1st plaintiff) and Gold Ocean (as the 2nd plaintiff) in the Court of First Instance of the High Court of Hong Kong under action number HCA 2501 of 2017 to certain parties, including the Company. The plaintiffs are seeking various court orders and declarations in respect of certain portions of the Third Convertible Note issued by the Company in April 2013, including the court order for the Company to issue certificates for those portions of the Third Convertible Note to the plaintiffs.

The Company is taking legal advice in respect of such legal action.

Fourth Party Notices in Relation to HCA 51 of 2017

As announced by the Company on 7 February 2017, the Company took legal action against Newborn Global Energy Limited (formerly known as "HASS Natural Resources Limited") ("**Newborn Global**") as the 1st defendant and Tso Chi Ming (also known as Herman Tso) as the 2nd defendant under action number HCA 51 of 2017. Subsequently, Kim Sungho and Zhi Charles were purportedly joined as the third parties to such legal action by Herman Tso.

As announced by the Company on 7 February 2017, by a Fourth Party Notice dated 16 January 2017, Zhi Charles purported to join 9 parties as the fourth parties and such fourth parties include a former Director of the Company and Grandvest International Limited (a wholly-owned subsidiary of the Company). In such Fourth Party Notice, Zhi Charles is seeking various declarations against these fourth parties in respect of, inter alia, the HASS Report on the Company's Russian coal mines.

The Company obtained a bankruptcy order against Zhi Charles on 26 April 2017 under bankruptcy number HCB 5395 of 2016. The Official Receiver is now the provisional trustee of the property of Zhi Charles and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Zhi Charles to continue with any of the proceedings (including this Fourth Party Notice under HCA 51 of 2017), Zhi Charles does not have locus and ceases to have any right to represent in any of the proceedings against the Company in normal circumstances. Please refer to the announcement of the Company on 5 May 2017.

The Company and Grandvest International Limited are taking legal advice in respect of such action, pending on the views of the Official Receiver.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(i) The Company/its Subsidiary as the Defendant *(Continued)*

Fourth Party Notices in Relation to HCA 51 of 2017 (Continued)

As announced by the Company on 13 February 2017, the Company on 6 February 2017 received a Fourth Party Notice dated 25 January 2017 from Kim Sungho whereby he purported to join 10 parties as the fourth parties and such parties include the Company, a former Director of the Company and Grandvest International Limited in the same legal action HCA 51 of 2017. In such Fourth Party Notice, Kim Sungho is seeking various declarations against those 10 parties in respect of, inter alia, the HASS Report on the Company's Russian coal mines.

The Company obtained a bankruptcy order against Kim Sungho on 7 June 2017 under bankruptcy number HCB 377 of 2017. The Official Receiver is now the provisional trustee of the property of Kim Sungho and his property including all things in action has vested in the Official Receiver. Until and unless the Official Receiver gives consent to Kim Sungho to continue with any of the proceedings (including this Fourth Party Notice under HCA 51 of 2017), Kim Sungho does not have locus and ceases to have any right to represent in any of the proceedings against the Company and the Directors of the Company in normal circumstances. Please refer to the announcement of the Company on 19 June 2017.

The Company and Grandvest International Limited are taking legal advice in respect of such action, pending on the views of the Official Receiver.

(ii) The Company/the Company's Director as the Plaintiff

HCA 706 of 2010 (Civil Proceedings Taken by the Company Against Three Former Directors of the Company) and HCMP 762 of 2017 (Related Intended Appeal Action by Cheung Keng Ching and Chou Mei)

As set out in the Company's announcement dated 25 November 2008, inter alia, the Securities and Futures Commission commenced proceedings in the High Court of Hong Kong to seek a disqualification order and a compensation order against three former executive directors of the Company (namely, Cheung Keng Ching, Chou Mei and Lau Ka Man Kevin) in entering into certain transactions during the period between late 2002 and late 2005 for and on behalf of the Group. The financial impacts on the Group in relation to these transactions had already been provided for and reflected in the previous financial results of the Group and they shall have no further adverse effects on the existing financial position of the Group.

As set out in the Company's announcement dated 22 March 2010, the judgment of the High Court of Hong Kong delivered on 18 March 2010, inter alia, (i) directed the Company to commence civil proceedings against these three former executive directors of the Company to recover loss attributable to their mis-management of the Company in entering into certain transactions for and on behalf of the Group during the period between late 2002 and late 2005; and (ii) ordered that any settlement of this civil action by the Company should be subject to the Court's approval.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(ii) The Company/the Company's Director as the Plaintiff *(Continued)*

HCA 706 of 2010 (Civil Proceedings Taken by the Company Against Three Former Directors of the Company) and HCMP 762 of 2017 (Related Intended Appeal Action by Cheung Keng Ching and Chou Mei) (Continued)

On 15 April 2010, the Company commenced civil proceedings (HCA 706 of 2010) against these three former executive directors to claim damages in the total sum of approximately HK\$18,980,000. Mediation was conducted with a view to settling the matter as required under the Civil Justice Reform. Although it was the opinion from the Senior Counsel that an amicable settlement would be preferred for the purposing of saving time and costs, no settlement arrangement has been reached. The Company proceeded further with the action against these three former Directors. All the pleadings were filed, and discovery was completed with the witness statements of the parties duly exchanged. A trial judge was assigned for the case on 25 March 2014. As a result of the solicitors ceasing to act for the Company from 9 February 2015, the hearing on the case management conference originally fixed on 11 February 2015 was adjourned pending an application by the Company to act in person or the Company's engagement of new solicitors.

On 27 April 2015, the Company finalized the engagement of new solicitors to act for the Company so as to further proceed with the case.

Upon the hearing on 30 July 2015, the Company would file a summons for application to amend the Indorsement of Claim and Statement of Claim. Hearing on the application of the Company to obtain leave to amend the Indorsement of Claim and Statement of Claim was held on 26 January 2017 with reserved judgment, and the related judgment was handed down on 10 February 2017, pursuant to which leave be granted to the Company to amend the Indorsement of Claim and Statement of Claim. Accordingly, the Amended Indorsement of Claim and Amended Statement of Claim had been filed.

The application of Cheung Keng Ching (as the first defendant) and Chou Mei (as the second defendant) for leave to appeal against the Ruling dated 10 February 2017 (regarding leave be granted to the Company to amend the Indorsement of Claim and Statement of Claim) was dismissed by the Court on 17 March 2017.

On 31 March 2017, the Company was informed by the legal adviser of Cheung Keng Ching (as the first defendant) and Chou Mei (as the second defendant) on an intended appeal action under HCMP 762 of 2017 for leave to appeal against the Ruling dated 10 February 2017 and also the Ruling dated 17 March 2017. At a Court hearing in the Court of Appeal held on 14 June 2017, the application for leave to appeal under HCMP 762 of 2017 was dismissed by the Court with costs payable by Cheung Keng Ching and Chou Mei to the Company.

On 10 October 2017, upon the application by the Company, the Court ordered that, inter alia, the case management conference hearing on HCA 706 of 2010 be fixed and heard on 24 April 2018.

An order was made by the Court on the 24 April 2018 case management conference hearing that (i) the case be referred to the Listing Judge for further direction; and (ii) all parties be at the liberty to arrange the second mediation before the next case management conference.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(ii) The Company/the Company's Director as the Plaintiff *(Continued)*

HCMP 443 of 2015

The originating summons of this action was issued by the Company as the plaintiff against Zhi Charles as the defendant on 22 February 2015, by which the Company claims against Zhi Charles for the orders that, inter alia, (i) Zhi Charles be restrained or otherwise be prohibited from commencing or issuing any fresh claims or proceedings in any court in Hong Kong by whatever originating process without first obtaining approval from the High Court of Hong Kong; (ii) alternatively Zhi Charles be restrained or otherwise be prohibited from commencing or issuing in any court in Hong Kong any fresh claims or proceedings by whatever originating process concerning any matter involving or relating to or touching upon or leading to proceedings in relation to HCA 206 of 2014, HCA 227 of 2014, HCA 1151 of 2014, HCCW 282 of 2014, HCA 2247 of 2014, HCA 43 of 2015, HCA 160 of 2015, HCA 168 of 2015, HCA 284 of 2015, HCA 347 of 2015, and any other proceeding which Zhi Charles may commence in the interim time, without first obtaining approval from the High Court of Hong Kong; (iii) Zhi Charles be restrained or otherwise be prohibited from corresponding or in any way communicating with the Hong Kong Stock Exchange or the Securities and Futures Commission with respect to any matter involving or relating to or touching upon the Company, without first obtaining approval from the High Court of Hong Kong; and (iv) if Zhi Charles, without first obtaining approval from the High Court of Hong Kong, commences or issues a fresh claim or proceeding against the Company, that fresh claim or proceeding shall automatically be dismissed without further order of the Court or action by any other party or person.

The Company has on 23 June 2016 obtained a Sealed Court Order dated 20 June 2016 in respect of HCMP 443 of 2015. The Order is made under section 27 of the High Court Ordinance which is designated for the restriction of vexatious legal proceedings and also the inherent jurisdiction of the Court.

Pursuant to such Order, the Court ordered, inter alia, that Zhi Charles be prohibited from commencing or issuing any fresh claims or proceedings in any Court in Hong Kong against the Company without the leave of one of the Designated Judges except where the originating process is signed by counsel or solicitors practising in Hong Kong who have read the Order and the reasons therefor. In addition, a stay of all further proceedings as against the Company in actions HCA 584 of 2016 and HCA 1195 of 2016 has been granted under the Order. For details of such Order, please refer to the Company's announcement of 29 June 2016.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(ii) The Company/the Company's Director as the Plaintiff *(Continued)*

HCA 1016 of 2016

As announced by the Company on 18 April 2016, the Company (as the plaintiff) has commenced a legal action against HASS Natural Resources Limited ("**HASS**") (now known as "Newborn Global Energy Limited") as the 1st defendant and Herman Tso (also known as Tso Chi Ming) as the 2nd defendant in the High Court of Hong Kong under action number HCA 1016 of 2016 on 18 April 2016. The Company is seeking various reliefs including, inter alia, a declaration that HASS and Herman Tso are not entitled to withdraw the HASS Reports or to assert the HASS Reports being void, an order that they retract their letters dated 1 April 2016 and 11 April 2016, respectively, for withdrawing the HASS Reports, and an order for payment of the original principal amount of the Third Convertible Note of US\$443,070,000 as damages. Herman Tso in his defence statement made counterclaims of US\$443,070,000 as damages.

The action is still in its early stage and will proceed in its usual manner.

HCB 5395 of 2016

The Company on 28 July 2016 filed with the High Court of Hong Kong a creditor's bankruptcy petition against Zhi Charles (also known as Chi Chang Hyun or Charles Chi or Charles Zhi) for his failure to comply with a statutory demand on payments to the Company of legal costs (plus interests) ordered by the Court amounting to HK\$1,701,744.56. Subsequent to the issue of the bankruptcy petition, three further costs orders totaling HK\$813,774.67 have been granted in favour of the Company against Zhi Charles.

Zhi Charles has also failed to comply with another statutory demand on payments to a former Director of the Company of legal costs (plus interests) ordered by the Court amounting to HK\$514,324.79, hence, the former Director of the Company has joined as a supporting creditor in HCB 5395 of 2016. Moreover, Zhi Charles has also been served by the Company another statutory demand on payments to the Company and its Directors in relation to the legal costs (plus interests) ordered by the Court amounting to HK\$634,823.

As announced by the Company on 5 May 2017, the Company obtained a bankruptcy order against Zhi Charles (also known as "CHI CHANG HYUN", "CHANG HYUN CHI", "ZHI CHARLES", "CHARLES ZHI", "CHARLES CHI") at the Court hearing held on 26 April 2017 under the bankruptcy proceedings commenced by the Company at the Court of First Instance of the High Court of Hong Kong under bankruptcy number HCB 5395 of 2016. The Official Receiver is now the provisional trustee of the property of Zhi Charles and his property including all things in action has vested in the Official Receiver. The Company will in due course seek the views of the Official Receiver in respect of their position on the various proceedings Zhi Charles has brought against the Company and the Directors of the Company. Until and unless the Official Receiver gives such consent to Zhi Charles to continue with any of the proceedings, Zhi Charles does not have locus and ceases to have any right to represent in any of the proceedings against the Company and the Directors of the Company in normal circumstances.

The Company has duly filed its proof of debt. The trustee in bankruptcy was appointed at the creditors' meeting on 3 August 2017. The Company as one of the creditors of Zhi Charles will be informed of the progress of the case.

Notes to the Financial Statements

For the year ended 31 March 2018

33. LITIGATIONS *(Continued)*

(ii) The Company/the Company's Director as the Plaintiff *(Continued)*

HCA 51 of 2017

As announced by the Company on 7 February 2017, the Company (as the plaintiff) commenced a legal action against Newborn Global Energy Limited (formerly known as "HASS Natural Resources Limited") ("**Newborn Global**") as the 1st defendant and Tso Chi Ming (also known as Herman Tso) ("**Tso**") as the 2nd defendant in the Court of First Instance of the High Court of Hong Kong under action number HCA 51 of 2017 on 10 January 2017. Tso was one of the directors of Newborn Global at all material times.

In such action, the Company pointed out, among other things, that Tso misrepresented to the Company that he was a "Competent Person" as defined in Chapter 18 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited when the Company entered into an agreement with Newborn Global in 2013 to engage Newborn Global to provide a technical report on the Company's Russian mines (i.e. the HASS Report). The Company is therefore seeking the repayment of the sums made to Newborn Global under such agreement and damages for misrepresentation from both Newborn Global and Tso.

The action is still in its early stage and will proceed with its usual manner.

HCB 377 of 2017

A former Director of the Company, Hong Sang Joon, on 18 January 2017 filed with the High Court of Hong Kong a creditor's bankruptcy petition against Kim Sung Ho (also known as Kim Sungho) for his failure to comply with a statutory demand on payments to him of legal costs (plus interests) ordered by the Court amounting to HK\$171,408.88.

As announced by the Company on 19 June 2017, the Company obtained a bankruptcy order against Kim Sungho (also known as "KIM SUNG HO") at the Court hearing held on 7 June 2017 under the bankruptcy proceedings commenced by the former Director of the Company at the Court of First Instance of the High Court of Hong Kong under bankruptcy number HCB 377 of 2017. The Official Receiver is now the provisional trustee of the property of Kim Sungho and his property including all things in action has vested in the Official Receiver. The Company will in due course seek the views of the Official Receiver in respect of their position on the various proceedings Kim Sungho has brought against the Company and the Directors of the Company. Until and unless the Official Receiver gives such consent to Kim Sungho to continue with any of the proceedings, Kim Sungho does not have locus and cease to have any right to represent in any of the proceedings against the Company and the Directors of the Company in normal circumstances.

The Official Receiver was appointed as trustee of Kim Sungho's property by an order of the Court on 18 September 2017. The Company as one of the creditors of Kim Sungho will be informed of the progress of the case.

Notes to the Financial Statements

For the year ended 31 March 2018

34. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group monitors its capital position by monitoring its gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include current and non-current borrowings as shown in the consolidated statement of financial position, including amounts due to shareholders, amounts due to related parties and promissory notes payable. Total capital is calculated as "equity attributable to owners of the Company", as shown in the consolidated statement of financial position, plus borrowings. The gearing ratios of the Group at 31 March 2018 and 2017 were as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|------------------|------------------|------------------|
| Total borrowings | 171,102 | 133,475 |
| Equity | 935,029 | 421,574 |
| Total capital | 1,106,131 | 555,049 |
| Gearing ratio | 15.5% | 24.0% |

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares to reduce debts.

The Group has no plan to use special measures to adjust its gearing ratio in the foreseeable future.

35. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of the reporting year are as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|------------------|------------------|
| Financial assets | | |
| Loan and receivables | | |
| Financial assets included in trade receivables, other receivables, deposit and prepayment | 5,730 | 4,056 |
| Prepayment for acquisition of exploration and mining rights | 418 | — |
| Cash and cash equivalents | 9,611 | 10,846 |
| | 15,759 | 14,902 |
| Financial liabilities | | |
| Trade payables | — | 1,282 |
| Other payables, accrued expenses and trade deposit received | 18,888 | 17,689 |
| Interest-bearing borrowings | 46,877 | 39,072 |
| Amount due to an ex-director | — | 11,867 |
| Amount due to shareholders | 108,625 | 33,039 |
| Purchase consideration payable for additional acquisition | 3,348 | 3,315 |
| Amount due to a related company | — | 33,897 |
| Convertible note payables | 3,591,498 | 3,187,111 |
| Promissory notes payables | 15,600 | 15,600 |
| | 3,784,836 | 3,342,872 |

Notes to the Financial Statements

For the year ended 31 March 2018

36. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's business and financial instruments are market risk (including foreign currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's historically has no policy to use derivatives for hedging purposes. The majority of the financial instruments held by the Group are for purposes other than trading. Please refer to Note 38 for details of financial instruments by category. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Market risk

(i) Foreign currency risk

The Group's business operations in Korea is denominated in the KRW and US\$, and the Group's investments denominated in US\$ and RUB. Most of the Group's assets and liabilities are denominated in HK\$, US\$, RUB and KRW, which are the functional currencies of respective group companies. The Group does not expect any significant exposure to foreign currency risks.

The Group currently does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider using hedging instruments in respect of significant foreign currency exposure should the need arise.

(ii) Cash flow and fair value interest rate risk

The Group's interest-rate risk mainly arises from promissory notes and convertible note. The Group's promissory notes and convertible note issued at fixed rate expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there is no borrowing which bears floating interest rates. The Group historically has not used any financial instrument to hedge potential fluctuation in interest rates.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

(c) Liquidity risk

The Group's policy to manage liquidity risk is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from lenders and shareholders to meet its liquidity requirements in the short and longer term. The Group relies on borrowings as a significant source of liquidity as set out in Note 2(b).

The following table details the remaining contractual maturities at the end of reporting year of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting year) and the earliest date the Group and the Company can be required to pay.

Notes to the Financial Statements

For the year ended 31 March 2018

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

| | Carrying amount | Total contractual undiscounted cash flow | On demand | Less than 3 months | More than 3 months but less than 1 year | More than 1 year but less than 5 years | More than 5 years |
|--|------------------|--|---------------|--------------------|---|--|-------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 31 March 2018 | | | | | | | |
| Trade payables | — | — | — | — | — | — | — |
| Other payables and accrued expenses | 18,888 | 18,888 | 11,934 | — | — | 6,954 | — |
| Amount due to a related party | — | — | — | — | — | — | — |
| Amounts due to shareholders | 108,625 | 117,346 | 1,905 | — | — | 115,441 | — |
| Promissory notes payables | 15,600 | 15,600 | — | — | — | 15,600 | — |
| Convertible notes payables | 3,591,498 | 3,591,498 | — | — | — | 3,591,498 | — |
| Purchase consideration payables for additional acquisition | 3,348 | 3,348 | 3,348 | — | — | — | — |
| Interest-bearing borrowings | 46,877 | 51,041 | 9,655 | — | — | 41,386 | — |
| | 3,784,836 | 3,797,721 | 26,842 | — | — | 3,770,879 | — |
| At 31 March 2017 | | | | | | | |
| Trade payables | 1,282 | 1,282 | 1,282 | — | — | — | — |
| Other payables and accrued expenses | 17,689 | 17,689 | 17,689 | — | — | — | — |
| Amount due to a related party | 33,897 | 36,734 | — | — | — | 36,734 | — |
| Amounts due to shareholders | 33,039 | 34,021 | — | — | — | 34,021 | — |
| Amount due to an ex-director | 11,867 | 12,399 | — | — | 6,054 | 6,345 | — |
| Promissory notes payables | 15,600 | 15,600 | — | — | — | 15,600 | — |
| Convertible notes payables | 3,187,111 | 3,591,584 | — | — | — | 3,591,584 | — |
| Purchase consideration payables for additional acquisition | 3,315 | 3,315 | 3,315 | — | — | — | — |
| Interest-bearing borrowings | 39,072 | 42,019 | 42,019 | — | — | — | — |
| | 3,342,872 | 3,754,643 | 64,305 | — | 6,054 | 3,684,284 | — |

Notes to the Financial Statements

For the year ended 31 March 2018

36. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Fair values measurements recognised in the statement of financial position

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

31 March 2018

| | Level 2 HK\$'000 | Total HK\$'000 |
|-----------------------------------|---------------------|-------------------|
| Assets | | |
| Other intangible assets | 522,142 | 522,142 |
| Exploration and evaluation assets | 2,331,014 | 2,331,014 |
| | 2,853,156 | 2,853,156 |
| Liability | | |
| Convertible notes payables | 3,591,498 | 3,591,498 |

Notes to the Financial Statements

For the year ended 31 March 2018

36. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Fair values measurements recognised in the statement of financial position *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

Fair value hierarchy *(Continued)*

31 March 2017

| | Level 2 HK\$'000 | Total HK\$'000 |
|-----------------------------------|---------------------|-------------------|
| Assets | | |
| Other intangible assets | 529,088 | 529,088 |
| Exploration and evaluation assets | 2,392,398 | 2,392,398 |
| | 2,921,486 | 2,921,486 |
| Liability | | |
| Convertible notes payables | 3,187,111 | 3,187,111 |

During the year, there were no significant transfers between instruments in Level 2, or transfers into or out of Level 3 (2017: Nil). The Company's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting year in which they occur.

The carrying amount of the Company's financial instruments carried at cost or amortised cost are not materially different from their fair value as at 31 March 2018 and 2017 except for the financial assets and liabilities fall into the fair value hierarchy described above.

(ii) Estimation of fair values

The major methods and assumptions used in estimating the fair values of financial instruments are explained in Note 16 and 17.

(e) Offsetting financial assets and financial liabilities

As at 31 March 2018 and 2017, there were no financial assets or financial liabilities which were subject to offsetting, enforceable master netting or similar agreements.

Notes to the Financial Statements

For the year ended 31 March 2018

37. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

Reconciliation of liabilities arising from financing activities

| At 1 April 2017 HK\$'000 | Financing cash flows HK\$'000 | Non-cash changes | | At 31 March 2018 HK\$'000 |
|--------------------------------|-------------------------------------|---------------------------------------|-----------------------------------|---------------------------------|
| | | Fair value adjustments HK\$'000 | Other changes (ii) HK\$'000 | |
| 10,846 | (1,235) | — | — | 9,611 |
| 10,846 | (1,235) | — | — | 9,611 |

- (i) The cash flows from loan from fellow subsidiaries make up the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows.
- (ii) Other changes including interest accruals.

38. FINANCIAL INSTRUMENTS BY CATEGORY

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| Financial assets | | |
| Financial assets at fair value through profit or loss | | |
| Other intangible assets | 522,142 | 529,088 |
| Exploration and evaluation assets | 2,331,014 | 2,392,398 |
| Loans and receivables | | |
| Trade receivables | 2,747 | 1,282 |
| Prepayment for acquisition of property, plant and equipment | 418 | — |
| Other receivables, deposits and prepayments | 2,983 | 2,774 |
| Cash and cash equivalents | 9,611 | 10,846 |
| | 2,868,915 | 2,936,388 |
| | | |
| | 2018 HK\$'000 | 2017 HK\$'000 |
| Financial liabilities | | |
| Financial liabilities at fair value through profit or loss | | |
| Convertible note payables | 3,591,498 | 3,187,111 |
| Financial liabilities at amortised cost | | |
| Trade payables | — | 1,282 |
| Other payables, accrued expenses and trade deposit received | 18,888 | 17,689 |
| Interest-bearing borrowings | 46,877 | 39,072 |
| Amount due to an ex-director | — | 5,957 |
| Purchase consideration payable for additional acquisition | 3,348 | 3,315 |
| | 3,660,611 | 3,254,426 |

Notes to the Financial Statements

For the year ended 31 March 2018

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| Notes | 2018 HK\$'000 | 2017 HK\$'000 |
|--|--------------------|--------------------|
| ASSETS AND LIABILITIES | | |
| Non-current assets | | |
| Investments in subsidiaries a | 1,327 | 1,374 |
| Current assets | | |
| Other receivables, deposits and prepayments | 1,725 | 1,105 |
| Cash and cash equivalents | 5,083 | 14 |
| | 6,808 | 1,119 |
| Current liabilities | | |
| Other payables and accrued expenses | 14,665 | 13,637 |
| Interest-bearing borrowings | 9,468 | 39,072 |
| Amount due to an ex-director | — | 6,055 |
| Amount due to shareholders | 1,968 | — |
| Conversion note payables | 3,591,498 | 3,187,111 |
| | 3,617,599 | 3,245,875 |
| Net current liabilities | (3,610,791) | (3,244,756) |
| Total assets less current liabilities | (3,609,464) | (3,243,382) |
| Non-current liabilities | | |
| Amount due to an ex-director | — | 5,910 |
| Amount due to a related party | — | 33,897 |
| Amount due to a shareholder | 76,685 | 4,845 |
| Interest-bearing borrowings | 33,709 | — |
| Promissory notes payables | 15,600 | 15,600 |
| | 125,994 | 60,252 |
| NET LIABILITIES | (3,735,458) | (3,303,634) |
| CAPITAL AND RESERVES | | |
| Share capital | 241,695 | 241,695 |
| Reserves b | (3,977,153) | (3,545,329) |
| CAPITAL DEFICIENCIES | (3,735,458) | (3,303,634) |

Notes to the Financial Statements

For the year ended 31 March 2018

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Note a: Investment in subsidiaries

The amounts including the amounts due from subsidiaries are unsecured, interest-free and not expected to be repaid within one year. The directors consider the amounts are in substance, part of the Company's investments in the subsidiaries in the form of quasi-equity loans.

Note b: Reserves

| | Share premium | Equity-settled share option reserve (Note i) | Capital reserve (Note ii & iii) | Accumulated losses | Total |
|--|------------------|---|---------------------------------------|-----------------------|--------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 April 2016 | 1,917,558 | 47 | 23,518 | (5,129,439) | (3,188,316) |
| Total comprehensive expenses for the year | — | — | — | (396,054) | (396,054) |
| Issue of shares upon loan capitalisation | 32,323 | — | — | — | 32,323 |
| Issue of shares upon new placement | 6,636 | — | — | — | 6,636 |
| Waiver of interest on early settle of amounts due to shareholders | — | — | 82 | — | 82 |
| At 31 March 2017 & 1 April 2017 | 1,956,517 | 47 | 23,600 | (5,525,493) | (3,545,329) |
| Total comprehensive expenses for the year | — | — | — | (431,939) | (431,939) |
| Waiver of interest on early settle of amounts due to shareholders | — | — | 115 | — | 115 |
| At 31 March 2018 | 1,956,517 | 47 | 23,715 | (5,957,432) | (3,977,153) |

Note:

At the end of reporting year, the equity-settled share option reserve and capital reserve of the Company represents respectively (i) the fair value of the outstanding share options of the Company at the respective grant dates; (ii) the amount of interest charged on amount due to an shareholder of the Company that was waived as a result of early settlement on the principal balance of the amount due to that shareholder of the Company. The amount waived was considered as a contribution from the equity participant of the Company; and (iii) the carrying amount of the Modified PN that was converted to equity and utilised to settle purchase consideration as set out in Note 25 as a result of early settlements on the principal balance of the Modified PN, which were considered as contributions from equity participant of the Company.

Notes to the Financial Statements

For the year ended 31 March 2018

40. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

| Name of company | Country of incorporation and operation | Particulars of issued and paid-up capital | Proportion of ownership interest | | | Principal activity |
|---|--|--|----------------------------------|---------------------|--------------------------|---|
| | | | Group's effective interest | Held by the Company | Held by the subsidiaries | |
| Langfeld Enterprises Limited (Note 1) | The Republic of Cyprus ("Cyprus") | Ordinary Euro 10,000 | 90% | — | 90% | Investment holding |
| LLC "Shakhta Lapichevskaya" ("Lapi") (Note 1) | Russia | Registered capital of Russian Roubles ("RUB") of 172,315,950 | 90% | — | 90% | Holding of mining and exploration rights |
| Grandvest International Limited | BVI | Ordinary US\$1 | 100% | 100% | — | Investment holding |
| Global Power Asia Co., Ltd. (Formerly known as SMG Asia Company Limited) (Note 1) | Korea | Registered capital of Korean Won ("KRW") of 10,000,000 | 100% | — | 100% | Mineral resources and commodities trading |

Note:

- The statutory financial statements of these subsidiaries are not audited by JH CPA Alliance Limited or any of our affiliates firms.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements

For the year ended 31 March 2018

41. SIGNIFICANT EVENTS AFTER THE REPORTING YEAR

- (a) Subsequent to the end of the reporting year, certain lenders have agreed to further extend the due dates of the loans and the promissory notes (and the related interests payables where applicable) to 31 December 2019, 7 March 2020 and 28 March 2020 (as the case may be). Please refer to Note 2(b) for more information.
- (b) On 3 April 2018, the Company entirely completed its obligation of injection of its portion of 40% of capital contribution, amounting to US\$637,319 (approximately equals to RMB4 million), into the PRC joint venture company which will engage in direct operation and franchise of English kindergarten(s) in the PRC. The registered name of the PRC joint venture company is “上海惟奉教育科技有限公司” (for identification purpose only, the translated English name is “Shanghai Weifeng Education and Technology Co., Ltd”).
- (c) On 5 June 2018, the Company entered into a loan facility agreement with an independent party, pursuant to which in case the Company has made efforts in seeking other debts financing and/or equity financing but is not able to do so at reasonable costs, the independent party could provide financial support to the Company up to US\$43,267,956 (approximately HK\$337,490,056).
- (d) On 29 June 2018, the Company entered into a loan facility agreement with an independent party, pursuant to which in case the Company has made efforts in seeking other debts financing and/or equity financing but is not able to do so at reasonable costs, the independent party could provide financial support to the Company up to US\$6,765,432 (approximately HK\$52,770,369).
- (e) On 29 June 2018, the Company entered into a loan facility agreement with an independent party, pursuant to which in case the Company has made efforts in seeking other debts financing and/or equity financing but is not able to do so at reasonable costs, the independent party could provide financial support to the Company up to US\$3,031,246 (approximately HK\$23,643,718).
- (f) On 29 June 2018, the Company entered into a loan facility agreement with an independent party, pursuant to which in case the Company has made efforts in seeking other debts financing and/or equity financing but is not able to do so at reasonable costs, the independent party could provide financial support to the Company up to US\$50,116,616 (approximately HK\$390,909,604).
- (g) On 29 June 2018, the Company entered into a loan facility agreement with an independent party, pursuant to which in case the Company has made efforts in seeking other debts financing and/or equity financing but is not able to do so at reasonable costs, the independent party could provide financial support to the Company up to US\$2,679,430 (approximately HK\$20,899,554).

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29 June 2018.

Financial Summary

For the year ended 31 March 2018
(Expressed in Hong Kong dollars)

The following is a summary of the published results and of the assets and liabilities of the Group for the five years ended 31 March 2018.

RESULTS

| | Year ended 31 March | | | | |
|--|---------------------|------------------|------------------|--------------------------------|--------------------------------|
| | 2018 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 (Restated) | 2014 HK\$'000 (Restated) |
| Turnover | 2,972 | 1,673 | 1,824 | 2,227 | 5,874 |
| (Loss)/Profit before tax and non-controlling interests | (504,723) | 2,027,292 | (465,573) | (613,566) | (674,439) |
| Income Tax | (6,408) | 3 | (2) | (10) | 460 |
| (Loss)/Profit after tax and before non-controlling interests | (511,131) | 2,027,295 | (465,575) | (613,576) | (673,979) |
| Non-controlling interests | 1,676 | (49,293) | 5,645 | 12,229 | 13,834 |
| Loss attributable to owners of the Company | (509,455) | 1,978,002 | (459,930) | (601,347) | (660,145) |

ASSETS AND LIABILITIES

| | Year ended 31 March | | | | |
|--|---------------------|------------------|------------------|--------------------------------|--------------------------------|
| | 2018 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 (Restated) | 2014 HK\$'000 (Restated) |
| Non-current assets | 2,868,057 | 2,935,384 | 475,911 | 577,387 | 869,184 |
| Current assets | 15,759 | 14,902 | 2,056 | 10,803 | 6,347 |
| Current liabilities | (3,625,170) | (3,254,426) | (190,941) | (164,195) | (126,991) |
| Non-current liabilities | (167,684) | (89,926) | (2,934,200) | (2,807,069) | (2,496,069) |
| Non-controlling interests | (25,991) | (27,508) | 25,872 | 20,751 | 6,391 |
| Equity attributable to owners of the Company | (935,029) | (421,574) | (2,621,302) | (2,362,323) | (1,741,138) |