MEC

MONGOLIA ENERGY CORPORATION

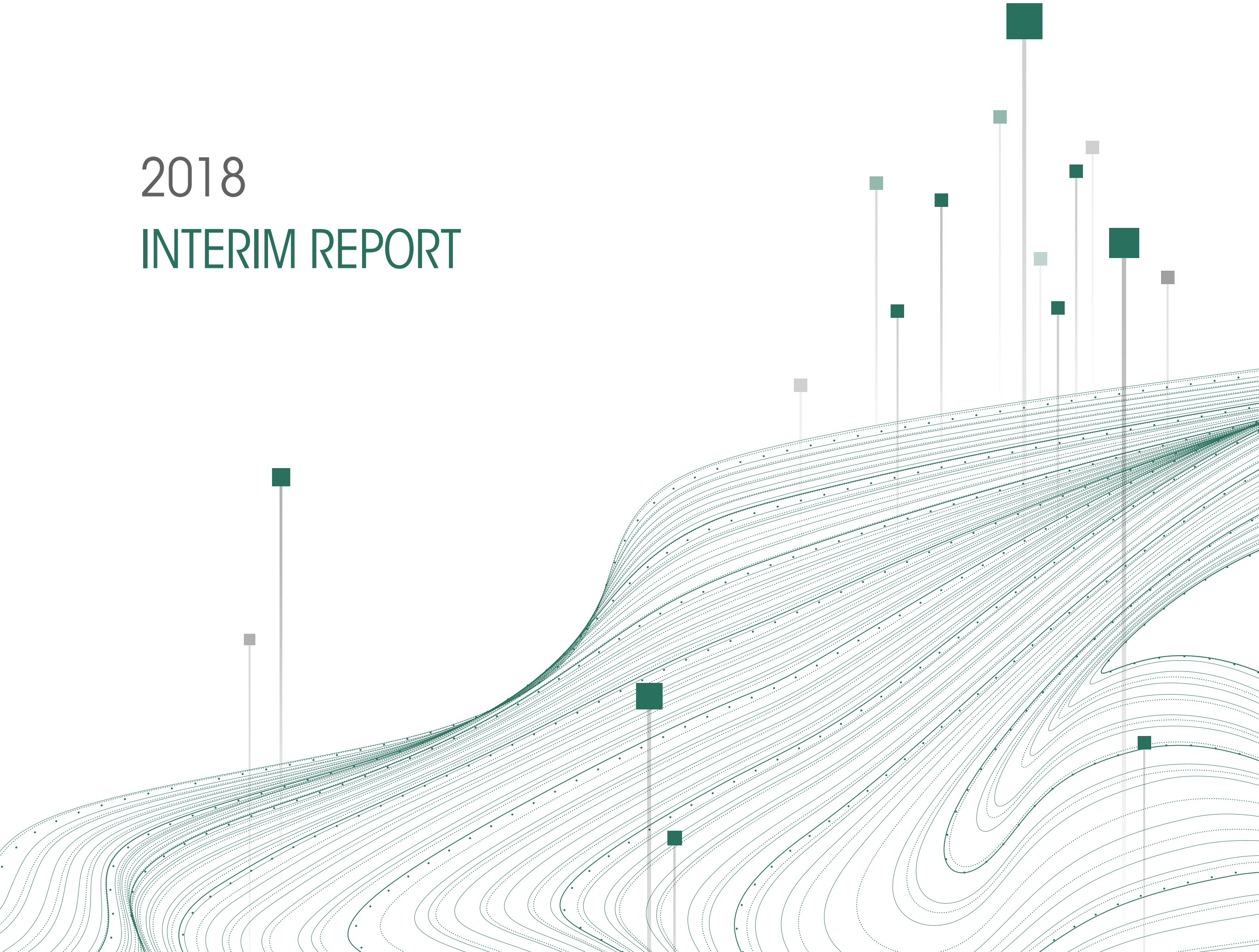
蒙 古 能 源 有 限 公 司

Incorporated in Bermuda with limited liability

Stock Code: 276

2018

INTERIM REPORT



CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**"), I hereby present the interim results of Mongolia Energy Corporation Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") for the six months ended 30 September 2018 (the "**Financial Period**") as follows:

OVERVIEW

The Company is an investment holding company.

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

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

During the Financial Period, approximately 863,700 tonnes of Run-of-Mine ("**ROM**") coal were produced and approximately 288,100 tonnes of coal, including clean coking coal and thermal coal were sold to our customers during this period.

RESULTS ANALYSIS

Revenue

In the Financial Period, the Group's revenue was HK$360.4 million (2017: HK$247.4 million). The revenue increased by 45.7% year-over-year was mainly due to the higher sales volumes achieved. During the Financial Period, the Group sold approximately 282,500 tonnes of clean coking coal (2017: 200,400 tonnes), 5,600 tonnes of thermal coal (2017: 4,700 tonnes) and 100 tonnes of raw coal (2017: 13,600 tonnes). The average selling prices of clean coking coal, thermal coal and raw coal net of sales tax were approximately HK$1,274.0 (2017: HK$1,185.0), HK$71.5 (2017: HK$93.6) and HK$695.8 (2017: HK$696.3) per tonne respectively.

Cost of Sales

Cost of sales included mining costs, coal processing costs, transportation costs, costs on disposal of coal refuse and other relevant operating expenses. The cost of sales for the Financial Period was HK$207.5 million (2017: HK$121.5 million). Such increase was partly due to the higher sales volume. Besides, the continuous increase in export of coal from Mongolia has intensified the national logistic problem arising from the tight supply of heavy loaded trucks for transportation, causing escalation of the transportation costs. During the Financial Period, the Group faced 18.5% increase in transportation costs. Furthermore, the Group's Uyench customs bonded yard ("**Uyench CBY**") became fully operational during the Financial Period and incurred operating costs by around HK$8.6 million. However, the Uyench CBY has provided significant contribution to improve raw coal shipping logistic from Khushuut to Xinjiang. The cost of sales was divided into cash costs of HK$202.8 million (2017: HK$119.1 million) and non-cash costs of HK$4.7 million (2017: HK$2.4 million).

Gross Profit

The Group's gross profit increased mildly to HK$152.9 million (2017: HK$125.9 million) with a gross profit ratio of 42.4% (2017: 50.9%).

Other Gains and Losses

The net loss was mainly due to the fair value loss of HK$38.9 million arising from an investment in a Hong Kong listed company (2017: HK$28.7 million).

Administrative Expenses

The drop in administrative expenses was mainly attributable to the recognition of equity settled share-based payment expense of approximately HK$21.9 million in last corresponding financial period, as a result of the share options granted by the Company in September 2017. No share option was granted in the Financial Period.

Changes in Fair Value on Derivative Component of Convertible Notes

The convertible notes ("**CN**") issued by the Company in 2014 contain debt and derivative components. In pursuance of the Company's accounting policies, the fair value of the derivative component of the CN shall be re-measured at the end of each reporting period. At the end of the Financial Period, an independent valuer was engaged by the Company using binomial valuation model to determine the fair value of the derivative component of the CN. A resulting gain on changes in fair value of HK$63.6 million was recognised (2017: HK$83.8 million). The major inputs into the binomial valuation model have been disclosed in the notes to the condensed consolidated financial statements.

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

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

The recoverable amount of the Mine Assets upon assessment was almost on a par with its carrying amount as at 31 March 2018 and therefore impairment charge/reversal was unnecessary in the Financial Period (2017: Nil).

Impairment Loss on Financial Assets

It included a provision for loss allowance in respect of trade and bills receivables of HK$2.4 million (2017: HK$Nil).

Finance Costs

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

MARKET REVIEW

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

Last year marked the strongest economic growth globally since the financial crisis in 2008; however, the global economy turns gloomy sharply this year after the set in of trade tensions between the USA and China. The high tariffs on foreign import set as a trade barrier limiting the import and export activities around the world and causing the fall of economic confidence among investors. This will ultimately lead to global financial instability if the emerging and developing economies are unable to repay their debts.

China's gross domestic product ("**GDP**") expanded 6.7% for the first three quarters of 2018 compared with the same period of 2017. It was the weakest pace of expansion since 2009. According to the data of National Bureau of Statistics of China ("**NBS**"), industry production grew by 6.4% year on year for the first nine months of the year due to slowdown in manufacturing output while retail sales demonstrated growth by 9.3% increase, and fixed assets investment grew 5.4% year on year for the first nine months of 2018. However, as the trade tensions between US and China intensify, it is anticipated the China's economy would grow in a weaker pace in the second half of 2018.

Under the shadow of economic uncertainties, the global crude steel production for the first nine months of 2018, according to the recent data of the World Steel Association, continued to rise, reaching 1,347 million tonnes, which is an increase of 4.7% compared with the same period of 2017. China remained the biggest crude steel producing country in the world in this period, accounting for 51.9% of the world's crude steel production, slightly up 0.6% compared with the same period in 2017. The crude steel production of China for the first nine months of 2018 was 699 million tonnes, which is an increase of 6.1% compared with the same period last year.

According to the data of China Customs, steel export of China for the first nine months of 2018 was 53.1 million tonnes, declining 10.7% compared with the same period last year while steel import recorded a slight decline of 0.4% at 9.97 million tonnes.

In respect of coal in general, the figures for the first nine months of 2018 was also satisfactory in China. According to the data of NBS, China produced 2.59 billion tonnes of coal by the coal producers above the designated size (i.e. annual revenue above RMB20 million), a surge of 5.1% compared with the same period last year. Coal import was 229 million tonnes, an increase of 11.8% compared with the same period last year based on the data of the China Customs while the coal export was 3.45 million tonnes, a decline of 47%. The increase of coal import was partly due to the domestic coal curb in coal production under the Supply-Side reform. However, the Chinese government may adopt flexible coal import policies from time to time as too much import may level off the effect of the Supply-Side reform. The profit of coal mining and washing industry in China reported a profit of an increase of 14.5% for the first nine months this year at RMB233 billion. On the side of coking coal, the accumulated coking coal import for the first nine months of 2018 was 50.3 million tonnes, a decline of 4.3% compared with the same period while export was 0.78 million tonnes, a decline of 61.1%.

As it is the government policies of China to promote better environment and prevent air pollution, China has implemented the overcapacity cut of coal and steel in recent years. In 2017, China had successfully reduced about 150 million tonnes in its coal production in capacity. The Supply-Side Reform continues in 2018 with the plan to slash 150 million tonnes of coal production. As such, the coking coal production volume will continue to fall. Due to the limited supply of the coking coal, prices are stable but any upward momentum is seemed lacking.

According to the National Statistics Office of Mongolia, from January to September 2018, Mongolia produced 33.5 million tonnes of coal, falling 7.5% compared with the same period last year. Its coal export for the same period this year was 27.4 million tonnes, increasing 6.2% compared with the same period last year. Mongolia is the second largest coking coal supplier to China, just behind Australia. As Mongolia borders China, and its low sulphur premium quality coking coal is an important source of supplement to the deficient amount of coking coal required by China's metallurgical sector, Mongolia has a great potential to replace Australia as the largest coking coal supplier to China.

Although the data and statistics released so far still recorded mild growing pace in the first half of 2018, with the escalating trade war between the major powers, investors confidence will continue to be weaken and economic growth momentum soften. Negative effects on global economic performance will sooner or later emerge and China will be impacted. Some researchers anticipate that steel production in China will falter with the slowing economy which may drag its coking coal demand and prices lower in the coming years if no solutions for the trade dispute could be made.

BUSINESS REVIEW

Coal Sales

Due to the state environmental policy of China resulting in stricter import control on coal, we experienced delays in our coking coal import into China intermittently during the Financial Period. However, through the effort of our team and constant communication maintained with the various authorities of China, the border crossing issues had not impacted us on our export and sales. We managed to sell approximately 282,500 tonnes of clean coking coal to our customers in the Financial Period which is better than the same period last year.

Coal Production

During the Financial Period, approximately 1,192,300 bank cubic meters ("**BCM**") of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2017: 884,000 BCM).

Production of coking coal (before processing) and thermal coal were approximately 432,700 tonnes and 431,000 tonnes respectively (2017: 424,900 tonnes and 158,500 tonnes).

Coal Processing

During the Financial Period, approximately 469,000 tonnes of ROM coal were processed by the dry coal processing plant (2017: 381,600 tonnes), producing approximately 392,100 tonnes of raw coking coal (2017: 289,100 tonnes). The average recovery rate was 83.6% (2017: 75.8%). The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customer.

In Xinjiang, approximately 386,300 tonnes of raw coking coal were processed by the washing plant (2017: 264,200 tonnes), producing approximately 334,700 tonnes of clean coking coal (2017: 219,900 tonnes). The average recovery rate was 86.6% (2017: 83.2%).

Customers and Marketing

We had entered into a master coal supply contract for 2018 with our major customer in Xinjiang. The actual sales price and quantity to be delivered were negotiated and mutually agreed from time to time between the parties shortly before delivery during this period. Notwithstanding the master coal supply contract with our major customer, our production and shipment of coal are closely linked to the market and other conditions and border crossing policies for import and export between China and Mongolia.

In respect of our other customers, we negotiated the sales and delivery orders shortly before delivery under the then prevailing market price and our quantity of coal available. We also supply thermal coal to the locals of Mongolia.

Apart from our major customer for coking coal, we had 3 other customers in Xinjiang during the Financial Period.

Licences

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

Legal and Political Aspects

Following the on-going positive trend in mineral resources prices on the global market, over the past 6 months, the Mongolian economy showed relatively good indicators and positive balance in foreign trade. According to the International Monetary Fund, Mongolia's GDP growth was 5% in the mid-2018 and inflation reached 6.4% which both are confident numbers compared with the previous year's forecasts.

In the Financial Period, various positive developments occurred in Mongolia – China economic relationship. In April 2018, the Prime Minister of Mongolia paid an official visit to PRC, addressed the China-Mongolia Business Forum and attended the Boao Forum for Asia annual conference which were held in Hainan under the theme "An Open and Innovative Asia for a World of Greater Prosperity". PRC's Minister of Foreign Affairs paid an official visit to Mongolia in August 2018, during which the two countries held talks and exchanged views on strengthening the partnership established between Mongolia and China, deepening mutually beneficial cooperation in infrastructure, railway, mining and other priority sectors and discussed other matters of regional importance. Then, the leaders of China and Mongolia conducted a high-level meeting during the IV Eastern Economic Forum in early September in Vladivostok, Russia. This meeting was a follow-up of another high level meeting in Qingdao 6 months earlier. The two sides agreed to renew the Comprehensive Strategic Partnership relations between the two countries and jointly buildup the East Asia Electricity Super Grid. In addition, they proposed a number of concrete plans for promoting mutual trade. At this Forum, several agreements have been reached between Russia, China and Mongolia for creating and maintaining the Economic Corridor which is expected to boost economic relations between these three countries.

The 8th Coal Mongolia International Trade and Investment Conference and Discover Mongolia 2018 were held in early September 2018, with goals to promote business friendly environment in Mongolia's economy and attract potential investors.

To further promote the country's exports, the Cabinet approved so-called Mongolia Exports programme in September 2018 which aims to support exports of Mongolian products through creating favorable conditions for domestic producers. This task includes efforts of improving diversification of goods for export and manufacturing more value-added products through some incentives and policy support.

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

The production and exchange of Independent Expert Reports are the focus the parties now working on after the exchange of the Supplemental Witness Statements in May this year. Expert evidence is required in cases where help from a third party with the appropriate expert knowledge and experience to understand an issue usually in certain specific or technical areas to a case. As the current dispute concerns substantial technical issues on coal mining; hence, expert witnesses are called.

Before the preparation of the expert reports, the parties to the proceedings have to agree on the list of issues to be addressed by the experts in the expert reports. We are now in discussion with the other side on the list of issues to be agreed in the expert reports.

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

FINANCIAL REVIEW

Liquidity and Financial Resources

In preparing the condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group. While recognising that the Group had net liabilities of HK$4,308.1 million and net current liabilities of approximately HK$1,513.6 million as at 30 September 2018, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future given that: (1) Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and chairman of the Company, has provided facilities amounting to HK$1,900.0 million. The balance of the unutilised facilities of HK$603.3 million as at 30 September 2018 remains valid until 31 March 2020; (2) Mr. Lo does not intend to demand repayment of his advances to the Company until the Company has sufficient cash to make repayment and (3) the Company will exercise its best endeavour to reach an acceptable debt restructuring with the holders of the CN on or before their maturity date i.e. 21 November 2019.

During the Financial Period, the Group recorded net cash inflows from operating activities of HK$17.2 million (2017: HK$83.6 million). The borrowings of the Group as at 30 September 2018 were mainly comprised convertible notes and advances from Mr. Lo in aggregate of HK$5,070.3 million (31 March 2018: HK$4,780.0 million). The convertible notes are non-current liabilities. The advances due to Mr. Lo are current liabilities. As at 30 September 2018, the cash and bank balances of the Group were HK$76.1 million (31 March 2018: HK$83.4 million) and the liquidity ratio was 0.28 (31 March 2018: 0.28).

Property, Plant and Equipment

During the Financial Period, the Group had incurred major capital expenditures of approximately HK$9.6 million (2017: HK$25.3 million).

Trade and Bills Receivables

As at 30 September 2018, trade and bills receivables increased to approximately HK$224.5 million (31 March 2018: HK$204.3 million) due to the increase in sales volume. The Group allows a credit period of 30 to 60 days for trade receivables and the maturity dates for bills receivables should be within 180 days or less. As at 30 September 2018, the majority of the trade receivables were within our credit period. For the bills receivables, they were non-interest bearing bank acceptance bills with settlement being guaranteed by the licensed banks in the PRC.

Other Receivables, Prepayments and Deposits

It mainly comprised value added tax refund and corporate income tax receivables of HK$49.3 million and HK$12.4 million respectively (31 March 2018: HK$42.0 million and HK$Nil) to be refunded by Mongolian government.

Financial Assets at Fair Value Through Profit or Loss

As at 30 September 2018, the fair value of the financial assets at fair value through profit or loss was HK$76.1 million (31 March 2018: HK$115.0 million), which was approximately 7.4% (31 March 2018: 11.3%) of the total assets of the Group. It represents the Group's interest in Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "**Jade Bird**"), a company listed in Hong Kong. The principal activities of Jade Bird and its subsidiaries are engaging in the technology research, development, marketing and sale of embedded system products and related products in security and fire alarm systems. The Group's investment is approximately 6.14% of the total issued share capital of Jade Bird. During the Financial Period, the Group did not receive any dividend from Jade Bird. The decrease in carrying value of the financial assets at fair value through profit or loss was mainly due to the fair value loss of HK$38.9 million.

Other Payables and Accruals

The major components were balance payments of capital expenditures due to construction companies and contractors and a balance payment for acquisition of an iron ore exploration right in 2009.

Contract Liabilities

It represented advanced deposits received from coal customers. Under the requirements of HKFRS 15, deposits from customers are to be recorded as contract liabilities where an entity receives consideration from a customer before the entity satisfies its performance obligations to this customer.

Charge on Group's Assets

There was no charge on the Group's assets as at 30 September 2018 (31 March 2018: Nil).

Gearing Ratio

As at 30 September 2018, the gearing ratio of the Group was 4.9 (31 March 2018: 4.7) which was calculated based on the Group's total borrowings to total assets.

Foreign Exchange

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

Contingent Liabilities

As at 30 September 2018, there were no material changes to the nature of the Group's contingent liabilities and they were all related to the legal claims made by a former mining contractor in 2013.

OUTLOOK

During the first half of the year, global economy was optimistic and China's economic performance still recorded a moderate increase. In accordance with NBS, steel industry had been performing well with most industry players reaped satisfactory profits. For the first nine months this year, Chinese steel industry's profit increased by 86% compared with the same period last year according to China Iron and Steel Association. However, against this backdrop, the trade tensions between China and the USA slipped in and have materialized into a full-blown conflict in the latter half of the year. If the trade tensions between the major powers are not amicably solved, we anticipate that the negative effects will gradually emerge and spread around the globe, rendering investors reluctant in continuing and furthering investments and affecting financial stability.

According to the Government Work Report 2018 of China, the trend of steel export of China has been slowing down. In addition, China is keen on keeping its environmental promises, it will stick to reducing steel capacity by 30 million tonnes and coal output by 150 million tonnes this year. Such measures and policy factors of China will suppress the demand of coking coal. Although the prices for premium coking coal are still stable, we believe the downside effects will bite sooner or later.

It is also the State policy on stringent environmental control together with the Supply-Side Reform, coal import policy will be tighten and import procedures stricter than before.

We foresee that the business environment will be filled with uncertainties in the latter half of this financial year. Despite the challenging factors, we will strive to ramp up our production and sales volumes efficiently in the second half of the financial year but will keep a close watch on the market developments to adjust our sales and operation plan effectively and flexibly.

APPRECIATION

In view of the above-mentioned internal and external factors, we believe the outlook remains challenging for the year ahead. Nevertheless, on behalf of the Board, I would like to express my deepest appreciation to all our dedicated colleagues, contractors and business partners for their non-stop contributions to and indulgence on us.

Finally, I would also like to extend my sincere gratitude for the long-term continuing support of our customers and shareholders.

Lo Lin Shing, Simon
Chairman
Hong Kong, 28 November 2018

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the Financial Period (2017: Nil).

DIRECTORS' INTERESTS

As at 30 September 2018, the interests or short positions of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of securities on the Stock Exchange (the "**Listing Rules**") were as follows:

Long positions in the shares and underlying shares of the Company

	Number of shares			Number of underlying shares			
Name of Directors	Personal interests	Spouse interests	Corporate interests	Personal Interests pursuant to share options	Corporate interests	Total interests	Percentage of shareholding
Mr. Lo Lin Shing, Simon ("**Mr. Lo**")	1,240,000	437,500	301,519,575 *(Note)*	35,000,000	716,853,496 *(Note)*	1,055,050,571	56.08%
Ms. Yvette Ong	272,500	–	–	15,000,000	–	15,272,500	0.81%
Mr. Lo, Rex Cze Kei	–	–	–	15,000,000	–	15,000,000	0.80%
Mr. To Hin Tsun, Gerald	1,350,000	–	–	8,000,000	–	9,350,000	0.50%
Mr. Tsui Hing Chuen, William *JP*	125,000	–	–	8,000,000	–	8,125,000	0.43%
Mr. Lau Wai Piu	50,300	–	–	8,000,000	–	8,050,300	0.43%
Mr. Lee Kee Wai, Frank	–	–	–	5,000,000	–	5,000,000	0.27%

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

Save as disclosed above and in the section headed "**SHARE OPTION SCHEME**", as at 30 September 2018, none of the Directors, chief executive and their respective associates had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

The register of interests in shares and short positions maintained under Section 336 of the SFO showed that as at 30 September 2018, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

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

	Number of shares and/or underlying shares					
Name of Shareholders	Beneficial/ Personal interests	Spouse interests	Corporate interests	Total interests		Percentage of shareholding
Cheng Yu Tung Family (Holdings) Limited	–	–	3,260,224,374	3,260,224,374	(Note 1)	173.30%
Cheng Yu Tung Family (Holdings II) Limited	–	–	3,260,224,374	3,260,224,374	(Note 1)	173.30%
Chow Tai Fook (Holding) Limited	–	–	3,260,224,374	3,260,224,374	(Note 1)	173.30%
Chow Tai Fook Capital Limited	–	–	3,260,224,374	3,260,224,374	(Note 1)	173.30%
Chow Tai Fook Nominee Limited	3,260,224,374	–	–	3,260,224,374	(Notes 1 & 2)	173.30%
Ms. Ku Ming Mei, Rouisa	437,500	1,054,613,071	–	1,055,050,571	(Note 3)	56.08%
Golden Infinity	1,018,373,071	–	–	1,018,373,071		54.13%
Mr. Daniel Saul Och	–	–	639,648,642	639,648,642	(Note 4)	34.00%
Och-Ziff Capital Management Group LLC	–	–	639,648,642	639,648,642	(Note 4)	34.00%
OZ Management LP	–	–	639,648,642	639,648,642	(Note 4)	34.00%
OZMD IR, LLC	–	–	413,898,046	413,898,046	(Note 4)	22.00%
Sculptor Finance (MD) Ireland Designated Activity Company	413,898,046	–	–	413,898,046	(Note 4)	22.00%
OZAS IR, LLC	–	–	188,138,092	188,138,092	(Note 4)	10.00%
Sculptor Finance (AS) Ireland Designated Activity Company	188,138,092	–	–	188,138,092	(Note 4)	10.00%
Dr. Cheng Kar Shun	–	19,775,000	78,892,500	98,667,500	(Note 5)	5.24%
Ms. Ip Mei Hing	–	78,892,500	19,775,000	98,667,500	(Note 5)	5.24%

Notes:

1. *Chow Tai Fook (Holding) Limited held 99.7% interest in Chow Tai Fook Nominee Limited. 81.03% interest of Chow Tai Fook (Holding) Limited was held by Chow Tai Fook Capital Limited in which it was held as to 48.98% by Cheng Yu Tung Family (Holdings) Limited and as to 46.65% by Cheng Yu Tung Family (Holdings II) Limited. By virtue of the SFO, each of Cheng Yu Tung Family (Holdings II) Limited, Cheng Yu Tung Family (Holdings) Limited, Chow Tai Fook Capital Limited, and Chow Tai Fook (Holding) Limited was deemed to be interested in the total interests held by Chow Tai Fook Nominee Limited.*

2. *Among the total interests held by Chow Tai Fook Nominee Limited, 3,205,224,374 shares were underlying shares.*

3. *Ms. Ku Ming Mei, Rouisa, the spouse of Mr. Lo, was deemed to be interested in all the shares and underlying shares owned by Mr. Lo beneficially, under the SFO.*

4. *OZAS IR, LLC ("**OZAS**") held 100% interest in Sculptor Finance (AS) Ireland Designated Activity Company and OZMD IR, LLC ("**OZMD**") held 100% interest in Sculptor Finance (MD) Ireland Designated Activity Company. OZAS and OZMD were 100% held by OZ Management LP. The entire interest of OZ Management LP was ultimately held by Och-Ziff Capital Management Group LLC, in which Mr. Daniel Saul Och was interested in 61.5% of its interest. By virtue of the SFO, each of Mr. Daniel Saul Och, Och-Ziff Capital Management Group LLC, and OZ Management LP was deemed to be interested in 639,648,642 underlying shares.*

5. *Dr. Cheng Kar Shun was interested in the entire issued share capital of Dragon Noble Group Limited ("**Dragon**"). By virtue of the SFO, he was deemed to be interested in 78,892,500 shares held by Dragon and 19,775,000 shares were owned by Ms. Ip Mei Hing (the spouse of Dr. Cheng Kar Shun) through her controlled corporation Brighton Management Limited.*

Save as disclosed above and those disclosed under "**DIRECTORS' INTERESTS**", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 30 September 2018.

SHARE OPTION SCHEME

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

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

					Number of shares subject to options				
Name or category of participants	Date of Grant	Exercise Price HK$	Exercise period	Vesting Period	As at 1 April 2018	Granted during the period	Lapsed during the period	Exercised during the period	As at 30 September 2018
Mr. Lo	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	3,750,000	–	(3,750,000)	–	–
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	17,000,000	–	–	–	17,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	18,000,000	–	–	–	18,000,000
Ms. Yvette Ong	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	1,250,000	–	(1,250,000)	–	–
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	5,000,000	–	–	–	5,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	10,000,000	–	–	–	10,000,000
Mr. Lo, Rex Cze Kei	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	15,000,000	–	–	–	15,000,000
Mr. To Hin Tsun, Gerald	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	125,000	–	(125,000)	–	–
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	3,000,000	–	–	–	3,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	5,000,000	–	–	–	5,000,000
Mr. Tsui Hing Chuen, William *JP*	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	125,000	–	(125,000)	–	–
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	3,000,000	–	–	–	3,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	5,000,000	–	–	–	5,000,000
Mr. Lau Wai Piu	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	125,000	–	(125,000)	–	–
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	3,000,000	–	–	–	3,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	5,000,000	–	–	–	5,000,000
Mr. Lee Kee Wai, Frank	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	5,000,000	–	–	–	5,000,000
Employees in aggregate (including a director of certain subsidiaries)	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	5,875,000	–	(5,875,000)	–	–
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	16,000,000	–	–	–	16,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	80,000,000	–	–	–	80,000,000
TOTAL					201,250,000	-	(11,250,000)	–	190,000,000

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

Neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the Company's listed securities during the Financial Period.

CORPORATE GOVERNANCE

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

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

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

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

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

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

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

The Chairman was unable to attend the 2018 AGM due to other business engagement. An executive Director took the chair of the 2018 AGM and answered questions raised by the shareholders. The AGM provides a channel for communication between the Board and the shareholders. Chairman of the Audit and Remuneration Committees of the Company was also present to answer shareholders' questions at the 2018 AGM. Other than the AGM, the shareholders may communicate with the Company through the contact methods listed on the Company's website.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTION

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

The Company has also established written guidelines on terms no less exacting than the Model Code (the "**Employees' Guidelines**") for securities transactions by relevant employees of the Group who are likely to be in possession of unpublished inside information of the Company.

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

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

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

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

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

Having made specific enquiries by the Company, all the Directors confirmed that they had complied with the required standards as set out in the Model Code and the Code regarding directors' securities transactions during the Financial Period. Besides, no incident of non-compliance by the relevant employees was noted by the Company for the six months ended 30 September 2018.

HUMAN RESOURCES

As at 30 September 2018, excluding site and construction workers directly employed by our contractors, the Group employed 720 full-time employees in Hong Kong, Mongolia, and the PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on a periodic basis. Apart from the retirement scheme, year-end bonus, and share options are awarded to the employees according to performance of the Group, assessment of individual performance, and industry practice. Appropriate training programs are also offered for staff training and development.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive Directors, namely Mr. Lau Wai Piu (Chairman of the Audit Committee), Mr. Tsui Hing Chuen, William$_{JP}$ and Mr. Lee Kee Wai, Frank. Chairman of the Audit Committee has appropriate professional qualifications, accounting and related financial management expertise.

The Audit Committee had reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2018.

BOARD OF DIRECTORS

As at the date of this report, the board of directors of the Company comprises the following members:

Executive Directors

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

Non-executive Director

Mr. To Hin Tsun, Gerald

Independent Non-executive Directors

Mr. Tsui Hing Chuen, William$_{JP}$
Mr. Lau Wai Piu
Mr. Lee Kee Wai, Frank

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2018

		Six months ended 30 September	
	Notes	**2018** **HK$'000** **(unaudited)**	**2017** **HK$'000** **(unaudited)**
Revenue	*3*	**360,372**	247,385
Cost of sales		**(207,485)**	(121,525)
Gross profit		**152,887**	125,860
Other income	*4*	**1,876**	2,283
Other gains and losses	*5*	**(37,131)**	(26,824)
Administrative expenses		**(64,356)**	(81,540)
Changes in fair value on derivative component of convertible notes	*17*	**63,584**	83,759
Impairment loss on available-for-sale financial asset		**–**	(29)
Impairment loss on financial assets		**(2,508)**	(4)
Finance costs	*6*	**(354,017)**	(301,398)
Loss before taxation	*8*	**(239,665)**	(197,893)
Income tax credit	*7*	**3,520**	–
Loss for the period attributable to owners of the Company		**(236,145)**	(197,893)
Loss per share attributable to owners of the Company	*10*		
– basic and diluted loss per share (HK cents)		**(12.55)**	(10.52)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Six months ended 30 September	
	2018 **HK$'000** **(unaudited)**	**2017** **HK$'000** **(unaudited)**
Loss for the period	**(236,145)**	(197,893)
Other comprehensive (expense) income		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences arising on translation	**(19,101)**	2,535
Total comprehensive expense for the period	**(255,246)**	(195,358)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Notes	30 September 2018 HK$'000 (unaudited)	31 March 2018 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*11*	**416,225**	419,418
Intangible assets	*11*	**33,432**	34,286
Exploration and evaluation assets	*12*	**190**	190
Interests in associates		**–**	–
Available-for-sale financial asset		**–**	–
Equity instrument at fair value through other comprehensive income		**–**	–
Other asset		**1,150**	1,150
Prepaid lease payment		**630**	697
		451,627	455,741
Current assets			
Prepaid lease payment		**14**	15
Inventories	*13*	**134,020**	107,018
Trade and bills receivables	*14*	**224,535**	204,348
Other receivables, prepayments and deposits	*15*	**70,621**	55,180
Financial assets at fair value through profit or loss		**76,127**	115,037
Amounts due from associates		**–**	–
Cash and cash equivalents		**76,100**	83,448
		581,417	565,046
Current liabilities			
Trade payables	*16*	**112,888**	108,610
Other payables and accruals		**127,965**	146,885
Contract liabilities		**15,401**	–
Tax liabilities		**5,614**	15,703
Advances from a Director	*23(a)*	**1,831,769**	1,760,438
Other loan	*6*	**–**	9,064
Deferred income		**1,421**	1,554
		2,095,058	2,042,254
Net current liabilities		**(1,513,641)**	(1,477,208)
Total assets less current liabilities		**(1,062,014)**	(1,021,467)
Non-current liabilities			
Convertible notes	*17*	**3,238,546**	3,019,544
Deferred income		**7,571**	9,054
		3,246,117	3,028,598
Net liabilities		**(4,308,131)**	(4,050,065)
Capital and reserves			
Share capital	*18*	**37,625**	37,625
Reserves		**(4,345,756)**	(4,087,690)
Capital deficiencies attributable to owners of the Company		**(4,308,131)**	(4,050,065)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2017 (audited)	37,625	51,463	3,451,893	17,510	(11,442)	(7,478,440)	(3,931,391)
Loss for the period	–	–	–	–	–	(197,893)	(197,893)
Other comprehensive income							
Exchange differences arising on translation	–	–	–	–	2,535	–	2,535
Total comprehensive income (expense) for the period	–	–	–	–	2,535	(197,893)	(195,358)
Equity-settled share-based payments *(Note 19)*	–	–	–	21,900	–	–	21,900
Share options lapsed	–	–	–	(600)	–	600	–
At 30 September 2017 (unaudited)	37,625	51,463	3,451,893	38,810	(8,907)	(7,675,733)	(4,104,849)
At 1 April 2018 (audited)	**37,625**	**51,463**	**3,451,893**	**38,810**	**7,922**	**(7,637,778)**	**(4,050,065)**
Adoption of new standards *(Note 2)*	**–**	**–**	**–**	**–**	**(81)**	**(2,739)**	**(2,820)**
At 1 April 2018 (as restated)	**37,625**	**51,463**	**3,451,893**	**38,810**	**7,841**	**(7,640,517)**	**(4,052,885)**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(236,145)**	**(236,145)**
Other comprehensive expense							
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**(19,101)**	**–**	**(19,101)**
Total comprehensive expense for the period	**–**	**–**	**–**	**–**	**(19,101)**	**(236,145)**	**(255,246)**
Share options lapsed	**–**	**–**	**–**	**(9,079)**	**–**	**9,079**	**–**
At 30 September 2018 (unaudited)	**37,625**	**51,463**	**3,451,893**	**29,731**	**(11,260)**	**(7,867,583)**	**(4,308,131)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

	Six months ended 30 September	
	2018	**2017**
	HK$'000	**HK$'000**
	(unaudited)	**(unaudited)**
Net cash from operating activities	**17,233**	83,639
Net cash used in investing activities:		
Purchase of property, plant and equipment	**(10,767)**	(25,796)
Other investing cash flows	**1,416**	230
	(9,351)	(25,566)
Net cash (used in) from financing activities:		
Advances from a Director	**–**	13,600
Repayment of a short term loan	**(9,164)**	–
	(9,164)	13,600
Net (decrease) increase in cash and cash equivalents	**(1,282)**	71,673
Cash and cash equivalents at beginning of the period	**83,448**	14,197
Effect of foreign exchange rate changes	**(6,066)**	(38)
Cash and cash equivalents at end of the period	**76,100**	85,832

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In preparing the condensed consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration to the future liquidity of the Group, including that Group had net liabilities of approximately HK$4,308.1 million and had net current liabilities of approximately HK$1,513.6 million at 30 September 2018, incurred a loss of approximately HK$236.1 million for the six-month period then ended and the fact that the convertible notes in the aggregate principal amount of HK$3,467,015,000 will be matured on 21 November 2019.

The Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future given that: (i) Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and being the Chairman and Director of the Company, has provided facilities amounting to HK$1,900.0 million by way of advances to the Group. Advances from a Director of HK$1,831.8 million as at 30 September 2018 comprise principal amount and accrued interest of HK$1,296.7 million and HK$535.1 million respectively. The balance of the unutilised facilities of HK$603.3 million remains valid until 31 March 2020 and Mr. Lo does not intend to demand repayment of the loan until the Company has sufficient cash to make repayment; and (ii) the Company will exercise its endeavour to reach an acceptable debt restructuring with the holders of the convertible notes before the maturity date of the convertible notes. Accordingly, the Directors are of the opinion that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2018, except as indicated below.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

HKAS 28 (Amendments)	As part of Annual Improvements to HKFRSs 2014-2016 Cycle
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Except as described below, the application of the above amendments to HKFRSs in the current period has had no material impact on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

Changes and impact in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 April 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: identify the contract(s) with a customer
- Step 2: identify the performance obligations in the contract
- Step 3: determine the transaction price
- Step 4: allocate the transaction price to the performance obligations in the contract
- Step 5: recognise revenue when (or as) the Group satisfies a performance obligation

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes and impact in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group's revenue is from sales of coals to customers and is recognised when the control of goods is transferred, being when the coals are delivered to the customers and accepted by the customers. A receivable is recognised by the Group when the goods are delivered to the customers and accepted by the customers as this represents the point of time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes and impact in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 April 2018. Line items not affected by the changes had not been included.

	Carrying amounts previously reported at 31 March 2018 HK$'000	Reclassification HK$'000	Carrying amounts under HKFRS 15 at 1 April 2018* HK$'000
Current liabilities			
Other payables and accruals	146,885	**(2,289)**	**144,596**
Contract liabilities	–	**2,289**	**2,289**

As at 1 April 2018, advances from customers of HK$2,289,000 in respect of sales contracts previously included in other payables and accruals were reclassified to contract liabilities.

* *The amounts in this column are before the adjustments from the application of HKFRS 9.*

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 September 2018. Line items not affected by the changes had not been included.

	As reported HK$'000	Reclassification HK$'000	Amounts without application of HKFRS 15 HK$'000
Current liabilities			
Other payables and accruals *(Note)*	**127,965**	**15,401**	**143,366**
Contract liabilities *(Note)*	**15,401**	**(15,401)**	**–**

Note:

Under HKAS 18, deposit received in advance from customers on sale of coal of HK$15,401,000 would have been included in other payables and accruals.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes and impact in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Summary of effects arising from initial application of HKFRS 15 (Continued)

Except for the above, the application of HKFRS 15 has no other significant impact to the condensed consolidated financial statements.

Changes and impact in accounting policies of application on HKFRS 9 "Financial Instruments" and the related amendments

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("**ECL**") for financial assets and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes and impact in accounting policies of application on HKFRS 9 "Financial Instruments" and the related amendments (Continued)

Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity instruments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets of the Group are subsequently measured at fair value through profit or loss ("**FVTPL**"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity instrument in other comprehensive income ("**OCI**") if that equity instrument is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes and impact in accounting policies of application on HKFRS 9 "Financial Instruments" and the related amendments (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

Equity instrument designated as at fair value through other comprehensive income ("**FVTOCI**")

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in equity and are not subject to impairment assessment.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The Directors reviewed and assessed the Group's financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date. Changes in classification on the Group's financial assets and the impacts thereof are detailed as below.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes and impact in accounting policies of application on HKFRS 9 "Financial Instruments" and the related amendments (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bill receivables, other receivables, amounts due from associates and cash and cash equivalents). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and bill receivables without significant financing component. The ECL on these assets are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes and impact in accounting policies of application on HKFRS 9 "Financial Instruments" and the related amendments (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes and impact in accounting policies of application on HKFRS 9 "Financial Instruments" and the related amendments (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at 1 April 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed as below.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes and impact in accounting policies of application on HKFRS 9 "Financial Instruments" and the related amendments (Continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 April 2018. There were no changes to the classification and measurement of financial liabilities.

	Available-for-sale financial asset HK$'000	Equity instrument at FVTOCI HK$'000	Trade and bills receivables HK$'000	Other receivables, prepayments and deposits HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000
Closing balance at 31 March 2018						
– HKAS 39	–	N/A	204,348	55,180	(7,922)	7,637,778
Effect arising from initial application of HKFRS 9						
– Reclassification *(Note (a))*						
From available-for-sale financial asset	–	–	–	–	–	–
– Remeasurement *(Note (b))*						
Impairment under ECL model	–	–	(1,136)	(1,684)	81	2,739
	N/A	–	203,212	53,496	(7,841)	7,640,517

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes and impact in accounting policies of application on HKFRS 9 "Financial Instruments" and the related amendments (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

Notes:

(a) *Reclassification from available-for-sale financial asset to equity instrument at FVTOCI*

The Group elected to present in OCI for the fair value changes of all its equity instrument previously classified as available-for-sale financial asset related to unquoted equity instrument previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, available-for-sale financial asset which has zero balance was reclassified to equity instrument at FVTOCI. No fair value adjustment relating to this unquoted equity instrument previously carried at cost less impairment was adjusted to equity instrument at FVTOCI and equity as at 1 April 2018 because the carrying value under HKAS 39 was approximated to its fair value as at 1 April 2018.

(b) *Impairment under ECL model*

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade and bills receivables. To measure the ECL, receivables are assessed individually.

Loss allowances for other receivables, prepayments and deposits are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition, except for certain other receivables which are measured on lifetime ECL basis as their credit risk had increased significantly since initial recognition.

As at 1 April 2018, the additional credit loss allowance of HK$2,739,000 and HK$81,000 were recognised against accumulated losses and translation reserve respectively. The additional loss allowance was charged against the respective assets.

All loss allowances for financial assets including trade and bills receivables and other financial assets at amortised cost as at 31 March 2018 were reconciled to the opening loss allowance as at 1 April 2018 which are shown as follows:

	Trade and bills receivables HK$'000	Other receivables, prepayments and deposits HK$'000
At 31 March 2018 – HKAS 39	–	–
Amounts remeasured	(1,136)	(1,684)
At 1 April 2018	(1,136)	(1,684)

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in (i) mining, processing and sale of coal; and (ii) other resources related business. Revenue represents income arising from the sale of coal to external customers located in Mainland China and Mongolia and is recognised at a point in time when the coals are delivered to the customers and accepted by customers.

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

Segment revenue and result

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

For the six months ended 30 September 2018

	Coal mining HK$'000	Total HK$'000
Segment revenue	**360,372**	**360,372**
Segment profit	**117,046**	**117,046**
Unallocated expenses *(Note)*		**(27,417)**
Other income		**9**
Other gains and losses		**(38,970)**
Changes in fair value on derivative component of convertible notes		**63,584**
Finance costs		**(353,917)**
Loss before taxation		**(239,665)**

Note:

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

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenue and result (Continued)

For the six months ended 30 September 2017

	Coal mining HK$'000	Total HK$'000
Segment revenue	247,385	247,385
Segment profit	99,127	99,127
Unallocated expenses *(Note)*		(51,947)
Other income		1,096
Other gains and losses		(28,732)
Changes in fair value on derivative component of convertible notes		83,759
Impairment loss on available-for-sale financial asset		(29)
Impairment loss on amount due from associate		(4)
Finance costs		(301,163)
Loss before taxation		(197,893)

Note:

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

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

	30 September 2018 HK$'000	31 March 2018 HK$'000
Coal mining	**942,072**	891,511

4. OTHER INCOME

	Six months ended 30 September	
	2018 HK$'000	2017 HK$'000
Dividend income	–	1,094
Government grant	**743**	722
Interest income	**816**	69
Sundry income	**317**	398
	1,876	2,283

5. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2018	**2017**
	HK$'000	**HK$'000**
Changes in fair value on financial assets at FVTPL	**(38,910)**	(28,724)
(Loss) gain on disposal of property, plant and equipment	**(125)**	55
Net exchange gain	**1,904**	1,845
	(37,131)	(26,824)

6. FINANCE COSTS

	Six months ended 30 September	
	2018	**2017**
	HK$'000	**HK$'000**
Interest on advances from a Director *(Note 23(a))*	**71,331**	65,587
Interest on other loan *(Note)*	**100**	235
Effective interest expense on convertible notes *(Note 17)*	**282,586**	235,576
	354,017	301,398

Note:

The amount represents interest payable to a short term unsecured loan with principal amount of HK$7.6 million. The interest expense was charged at 6% per annum. The loan was fully repaid during the current period.

7. INCOME TAX CREDIT

	Six months ended 30 September	
	2018	**2017**
	HK$'000	**HK$'000**
Current tax:		
People's Republic of China (the "**PRC**") Enterprise Income Tax	**2,290**	–
Over provision in prior years:		
PRC Enterprise Income Tax	**(5,810)**	–
	(3,520)	–

7. INCOME TAX CREDIT (CONTINUED)

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

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

Mongolian corporate income tax was calculated at 10% to the first Mongolian Tugrik 3 billion of annual taxable income and 25% on the remaining annual taxable income (if any) for both periods.

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

No provision for Hong Kong Profits Tax has been made for both periods as the Group has no assessable profit arising from operation in Hong Kong. No provision for PRC Enterprise Income Tax for the six months ended 30 September 2017 and no provision for Mongolian corporate income tax for both periods as the assessable profit arising from overseas operation was wholly absorbed by tax losses brought forward.

8. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging (crediting):

	Six months ended 30 September	
	2018	**2017**
	HK$'000	**HK$'000**
Employee benefit expenses, including Directors' emoluments (net of reimbursement from a related party) *(Note 23(c))*	**49,643**	61,851
Less: employee benefit expenses capitalised in inventories	**(16,704)**	(11,528)
	32,939	50,323
Amortisation of prepaid lease payment	**7**	5
Amortisation of intangible assets	**842**	836
Depreciation of property, plant and equipment	**9,541**	4,046
Operating lease rentals in respect of office premises (net of reimbursement from a related party) *(Note 23(c))*	**1,958**	1,575

9. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period (2017: Nil). The Directors do not recommend the payment of an interim dividend.

10. LOSS PER SHARE

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

	Six months ended 30 September	
	2018	**2017**
	HK$'000	**HK$'000**
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	**236,145**	197,893

	Six months ended 30 September	
	2018	**2017**
	'000	**'000**
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,881,258**	1,881,258

Note:

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

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, Plant and Equipment

During the six months ended 30 September 2018, the Group spent approximately HK$4,794,000 (2017: HK$108,000), HK$1,337,000 (2017: HK$19,348,000), HK$378,000 (2017: HK$2,298,000) and HK$3,125,000 (2017: HK$3,522,000) on mining structures, construction in progress, plant, machinery and other equipment and motor vehicles respectively.

Intangible Assets

The intangible assets consist of software and exclusive right of use of the paved road.

There were no significant capital expenditures spent in the intangible assets for both periods.

Recoverable Amount Assessment on Khushuut Related Assets

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

The Directors instructed the Independent Valuer to use the information and assumptions provided by the management, including the current selling price for coking coal, cost structure and production capacity of the Khushuut Related Assets. In pursuant to the recoverable amount assessment, no impairment or reversal of impairment is required for both periods.

12. EXPLORATION AND EVALUATION ASSETS

	Mining and exploration rights *(Note (a))* HK$'000	Others *(Note (b))* HK$'000	Total HK$'000
COST			
At 1 April 2017	**151**	**5**	**156**
Addition	**–**	**34**	**34**
At 31 March 2018 and 30 September 2018	**151**	**39**	**190**

Notes:

(a) *Mining and exploration rights include (i) an iron ore exploration concession of around 2,983 hectares in Western Mongolia for ferrous resources and (ii) a ternary metal exploration concession of around 10,884 hectares in Western Mongolia acquired during the year ended 31 March 2017.*

*On 16 July 2009, the Parliament of Mongolia enacted the Mining Prohibition Law (the "**MPL**") which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas and areas adjacent to rivers and lakes. On 18 February 2015, the Parliament of Mongolia further amended the MPL on implementation of MPL and provided option for the licence holders to continue their operations subject to undertaking a number of obligations in operations and submit a request to the Mineral Resources and Petroleum Authority of Mongolia (the "**MRPAM**") and enter into agreement with the Ministry of Environment and Tourism, MRPAM and the governor of the relevant province.*

*This iron ore exploration concession has been affected by the MPL. Zvezdametrika LLC ("**Z LLC**"), an indirect wholly-owned subsidiary of the Company which owns the iron ore exploration concession, received a notice from the MRPAM during the year ended 31 March 2010 about the potential revocation of its exploration concession under the MPL and Z LLC was requested to submit the estimated compensation for termination of licences with supporting documents. After taking legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRPAM's request. The Group's legal advisers confirmed their interpretation of the relevant legislation that following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licensed area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. According to the best knowledge of management, there was no revocation of its licence at 30 September 2018.*

12. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Notes:

(a) *(Continued)*

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

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

During the six months period ended 30 September 2018, the management considered that the factors mentioned above continued to apply and concluded that the recoverable amount of the iron ore concession remains minimal. Accordingly, no reversal of impairment loss was considered necessary in the current interim period. As at 30 September 2018, only limited exploration works were done on the iron ore concession.

(b) *Other represents the expenses incurred for the concession as mentioned in note (a).*

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

13. INVENTORIES

	30 September 2018 HK$'000	**31 March 2018 HK$'000**
Coal	**128,283**	101,887
Materials and supplies	**5,737**	5,131
	134,020	107,018

14. TRADE AND BILLS RECEIVABLES

	30 September 2018 HK$'000	31 March 2018 HK$'000
Trade receivables	**53,262**	46,585
Bills receivables	**137,905**	109,026
Accrued income *(Note)*	**33,368**	48,737
	224,535	204,348

Note:

Accrued income represents the Group's unconditional right to consideration in exchange for coal and was accrued on the basis that coals are delivered and the customer has accepted the goods and invoice will be issued within 3 months.

The movement in the allowance for impairment during the current interim period is as follows:

	30 September 2018 HK$'000
Balance at 1 April 2018	**1,136**
Provision for loss allowance	**2,290**
Balance at 30 September 2018	**3,426**

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

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

	30 September 2018 HK$'000	31 March 2018 HK$'000
1 to 30 days	**44,735**	51,056
31 to 60 days	**13,775**	8,053
61 to 90 days	**9,790**	1,445
Over 90 days	**18,330**	34,768
	86,630	95,322

15. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 September 2018 HK$'000	31 March 2018 HK$'000
Other receivables	**244**	2,502
Prepayments	**19,347**	8,075
Deposits	**1,674**	2,584
Others	**49,356**	42,019
	70,621	55,180

16. TRADE PAYABLES

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

	30 September 2018 HK$'000	31 March 2018 HK$'000
0 to 30 days	**51,196**	54,315
31 to 60 days	**4,145**	1,359
61 to 90 days	**1,490**	506
Over 90 days	**56,057**	52,430
	112,888	108,610

17. CONVERTIBLE NOTES

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

	Debt components		Derivative components		Total	
	30 September 2018 HK$'000	**31 March 2018 HK$'000**	**30 September 2018 HK$'000**	**31 March 2018 HK$'000**	**30 September 2018 HK$'000**	**31 March 2018 HK$'000**
At beginning of the period/year	**2,955,921**	2,463,743	**63,623**	298,246	**3,019,544**	2,761,989
Interest charge	**282,586**	492,178	**–**	–	**282,586**	492,178
Changes in fair value on derivative component	**–**	–	**(63,584)**	(234,623)	**(63,584)**	(234,623)
At end of the period/year	**3,238,507**	2,955,921	**39**	63,623	**3,238,546**	3,019,544

2014 Convertible Notes with maturity date 21 November 2019

On 21 November 2014, the Company issued convertible notes at HK$2,424,822,000, HK$542,315,000 and HK$499,878,000 to Chow Tai Fook Nominee Limited, Golden Infinity Co., Ltd. ("**Golden Infinity**") and the holders of the 3.5% convertible notes with aggregate principal amount of HK$466.8 million respectively (collectively referred to as the "**2014 Convertible Notes**") to retire the outstanding principal amounts and accrued interests of convertible notes previously issued to these noteholders.

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

The 2014 Convertible Notes contains two components, a debt component and derivative component with a conversion option derivative of the holders and a callable option derivative of the issuer (which is immaterial in value). The effective interest rate of the debt component is 19.96%. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

17. CONVERTIBLE NOTES (CONTINUED)

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

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

	30 September 2018	**31 March 2018**
Stock price	**HK$0.14**	HK$0.18
Exercise price	**HK$0.87**	HK$0.87
Volatility *(Note (a))*	**43.90%**	83.31%
Dividend yield	**0%**	0%
Option life *(Note (b))*	**1.14 years**	1.64 years
Risk free rate	**1.95%**	1.29%

Notes:

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

(b) The option life as at 30 September 2018 was based on the maturity date of the notes.

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

No conversion took place during both periods.

18. SHARE CAPITAL

Authorised and issued share capital

	30 September 2018 HK$'000	31 March 2018 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.02 each	**300,000**	300,000

	Number of ordinary shares of HK$0.02 each	Amount HK$'000
Issued and fully paid:		
At 1 April 2017, 30 September 2017, 1 April 2018 and 30 September 2018	**1,881,258,499**	**37,625**

19. SHARE-BASED PAYMENT

Equity-settled share option scheme

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

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

Movements of share options outstanding are as follows:

	Number of share options
As at 1 April 2018	**201,250,000**
Lapsed	**(11,250,000)**
As at 30 September 2018	**190,000,000**

No share options were exercised during the period (2017: Nil).

19. SHARE-BASED PAYMENT (CONTINUED)

The fair values of options granted during the six-month period ended 30 September 2017 were determined as follows:

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

Notes:

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

(b) Expense amounting to HK$21,900,000 in relation to share options granted was recognised during the six-month period ended 30 September 2017.

20. CAPITAL COMMITMENTS

Capital commitments contracted for but not provided for in the condensed consolidated financial statements are as follows:

	30 September 2018 HK$'000	31 March 2018 HK$'000
Construction of new stockpile area	**992**	1,146
Other exploration related commitments	**253**	253
Purchase of property, plant and equipment	**1,211**	1,552
Road improvement and drilling equipment transport	**11,968**	11,968
Wash plant	**3,321**	3,484
Others	**332**	339
	18,077	18,742

21. CONTINGENT LIABILITIES

During the year ended 31 March 2013, the Company and MoEnCo LLC, an indirect wholly-owned subsidiary of the Company, disputed the services provided and the amount charged by the former mining contractor and accordingly, refused to settle the contractor fees as claimed by the former mining contractor.

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

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical asset or liability.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Financial assets/ financial liabilities	Fair value as at 30 September 2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s) and relationship of unobservable inputs to fair value
1) Equity instrument at FVTOCI	**HK$Nil (31 March 2018: N/A)**	Level 3	*(Note (a))*	N/A
2) Listed equity classified as FVTPL	**HK$76,127,000 (31 March 2018: HK$115,037,000)**	Level 1	– Quoted bid prices in an active market	N/A
3) Embedded derivative component of convertible notes	**HK$39,000 (31 March 2018: HK$63,623,000)**	Level 3	– Binomial Valuation Model – The key inputs are share price, exercise price, time to maturity, risk free rate, volatility and dividend yield	Volatility is 43.90% (31 March 2018: 83.31%) A slight increase in volatility would result in significant higher fair value measurement, and vice versa *(Note (b))*

There was no transfer between different fair value hierarchy for both periods.

Notes:

(a) The fair value of the equity instrument at FVTOCI was determined by referencing to the proceeds from subsequent disposal in October 2018.

(b) If the volatility of listed share prices of the Company had been 5% (2017: 5%) higher or lower and all other input variables of the valuation model were held constant, the Group's loss for the period would increase by HK$143,000 (2017: loss for the period would increase by HK$23,168,000) or decrease by HK$36,000 (2017: loss for the period would decrease by HK$35,988,000), as a result of changes in fair value of the derivative component of the convertible notes.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Reconciliation of Level 3 fair value measurements of financial assets and financial liabilities

	Equity instrument at FVTOCI HK$'000	Embedded derivatives component of convertible notes HK$'000
At 1 April 2018	–	63,623
Changes in fair value recognised in profit or loss	–	(63,584)
At 30 September 2018	–	39

The fair value gain recognised for the period included in profit or loss relates to the embedded derivative component of convertible notes held at the end of the current reporting period.

In estimating the fair value of the Group's embedded derivative component of convertible notes, the Group uses market-observable data to the extent they are available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuations at the end of each reporting period. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs to the valuation model. Where there is a material change in the fair value of the assets or liabilities, the cause of fluctuations will be reported to the Directors.

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

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

23. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the condensed consolidated financial statements, significant related party transactions are as follows:

(a) Advances from Mr. Lo

	30 September 2018 HK$'000	31 March 2018 HK$'000
Balance of advances *(Note)*	**1,831,769**	1,760,438

	Six months ended 30 September	
	2018 HK$'000	2017 HK$'000
Interest charge for the period	**71,331**	65,587

Note:

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

(b) Convertible note and interest charge on convertible note by a related party – Golden Infinity

	30 September 2018 HK$'000	31 March 2018 HK$'000
Convertible note payable	**506,578**	475,521

	Six months ended 30 September	
	2018 HK$'000	2017 HK$'000
Interest charge on convertible note for the period *(Note (ii))*	**8,157**	8,157

Notes:

(i) Mr. Lo has a controlling interest in Golden Infinity. Details of the convertible notes issued to Golden Infinity are set out in Note 17.

(ii) Amount represents nominal interest charge on convertible note. The effective interest expense on convertible note for the period is approximately HK$44,203,000 (2017: HK$36,849,000)

23. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Transactions with related parties

	Six months ended 30 September	
	2018	**2017**
	HK$'000	**HK$'000**
Rental expenses paid to related parties *(Note (i))*	**2,197**	2,159
Reimbursement of sharing of administrative services from a related party *(Note (i) & (ii))*	**3,325**	4,956

Notes:

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

(ii) On 10 July 2015, the Group entered into a share of administrative service agreement with a related party in relating to sharing of office space of the Group's Hong Kong office, supporting staff and other facilities. The service is charged at cost basis. The Group further renewed the contract with the related party and extended the agreement for a period of 1 year with effective from 24 July 2018.

(d) Balance with related parties

	30 September 2018	**31 March 2018**
	HK$'000	**HK$'000**
Rental deposits paid to related parties *(Note (i))*	**425**	425

Note:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 September 2018

23. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Key management compensation

The remuneration of Directors and other members of key management during the period was as follows:

	Six months ended 30 September	
	2018	**2017**
	HK$'000	**HK$'000**
Basic salaries, other allowances and benefits in kind	**6,247**	5,497
Equity-settled share-based payments *(Note)*	**–**	9,648
Contributions to Mandatory Provident Fund Scheme	**27**	18
	6,274	15,163

Note:

During the six months ended 30 September 2018, no share options were granted to the Group's key management (2017: 63,000,000).