MEC
MONGOLIA ENERGY CORPORATION
蒙 古 能 源 有 限 公 司

Incorporated in Bermuda with limited liability
Stock Code: 276

INTERIM REPORT 2019

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 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 turn 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 2019 (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 1,012,700 tonnes (2018: 863,700 tonnes) of Run-of Mine ("**ROM**") coal were produced and approximately 696,100 tonnes (2018: 288,200 tonnes) of coal, including clean coking coal, raw coal and thermal coal, were sold to our customers during this period.

RESULTS ANALYSIS

Revenue

In the Financial Period, the Group achieved revenue of HK$800.1 million (2018: HK$360.4 million). Revenue was up approximately 222.0% against last period mainly driven by higher sales volumes. During the Financial Period, the Group sold approximately 618,800 tonnes (2018: 282,500 tonnes) of clean coking coal and approximately 77,200 tonnes (2018: 5,600 tonnes) of thermal coal and approximately 100 tonnes (2018: 100 tonnes) of raw coal. The average selling prices of clean coking coal, thermal coal and raw coal net of sales tax were approximately HK$1,288.1 (2018: HK$1,274.0), HK$38.6 (2018: HK$71.5) and HK$702.1 (2018: HK$695.8) per tonne respectively.

Cost of Sales

Cost of sales includes 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$434.8 million (2018: HK$207.5 million). The increase was in tandem with the higher sales volume achieved in the Financial Period. It was divided into cash costs of HK$423.6 million (2018: HK$202.8 million) and non-cash costs of HK$11.2 million (2018: HK$4.7 million).

Gross Profit

The gross profit grew to HK$365.3 million (2018: HK$152.9 million). Gross profit ratio for the Financial Period improved slightly to 45.7% (2018: 42.4%) due to the lower mining cost per ROM tonne.

Other Gains and Losses

The net loss was mainly due to the fair value loss of HK$2.5 million arising from an investment in a Hong Kong listed company (the "**Listed Investment**") (2018: HK$38.9 million). The slight drop of the closing share price of the Listed Investment when compared to the last reporting date accounted for the improvement in other gains and losses.

Administrative Expenses

Administrative expenses were relatively stable after taking into accounts of the increase in sales activities. Apart from the usual increase during the Financial Period, it was mainly contributed by the increase in community expenses of HK$6.5 million (2018: HK$1.2 million) in respect of funding the relocation of a village in proximity to the Khushuut mine.

Changes in Fair Value on Derivative Component of Convertible Notes

The convertible notes issued by the Company in 2014 contain debt and derivative components. In view of the expiry of the 2014 convertible notes in November 2019, the derivative component of the 2014 convertible notes was already dropped to a minimal level at the beginning of the Financial Period. Therefore, a mere resulting gain on changes in fair value of HK$81,000 was recognised (2018: HK$63.6 million).

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 price trend of coking coal, coking coal grades, production capacity and rates, future capital expenditure, inflation rate and production costs over the mine life of the Khushuut mine, etc. The cash flow projection covers the expected life of the whole operation. Major assumptions including selling prices trend, operating and capital costs, sales volume, inflation rates and discount rate are particularly important; the determination of the recoverable amount is relatively sensitive to changes in these important assumptions.

Key changes in assumptions used in the discounted cash flow model as at 30 September 2019 and 31 March 2019 are set out as below:

	Notes	30 September 2019	31 March 2019
Discount rate	(a)	22.63%	22.67%
Average current coking coal price per tonne	(b)	US$133	US$136
Inflation rate	(c)	1.78%	1.78%
Predicted annual growth rate of the coking coal price for the forthcoming first year since period/year ended	(d)	-12.11%	-5.83%

Notes:

(a) *The discount rate is derived from the Group's weighted average cost of capital ("**WACC**") with appropriate adjustments made to reflect the risks specific to the Khushuut Coal Mine. The WACC takes into accounts both cost of debt and equity, and weighted based on the Group's and comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors and based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of comparable peer companies. The change of discount rate from last year was a combined result of the updates on the WACC including the risk-free rate and other risk premium factors. The risk-free rate adopted was the yield of China 10-year government bond as at 30 September 2019. The risk premium factors are to reflect the business risks of the Khushuut Coal Mine;*

(b) *The average current coking coal price was updated based on latest sales contracts;*

(c) *Inflation rate was updated by reference to external market research data; and*

(d) *The annual growth rates for the forthcoming first to fourth years were updated based on latest publicly available market data. For the remaining period of the discounted cash flow model, the growth rate is the same as the inflation rate.*

Based on the recoverable amount assessment, a charge of impairment amounted to HK$307.2 million was made in the Financial Period (2018: Nil).

Finance Costs

The major components in the finance costs were the effective interest expense on convertible notes and interest charge on advances from a Director. The interest charge on the debt component of the convertible notes issued by the Company was calculated at an effective interest rate of 19.96% per annum (2018: 19.96%). The interest charge on the advances from a Director was calculated at the Hong Kong prime rate plus 3% per annum, which was same as previous financial years. The ongoing accumulation of interest charge in the debt component of the convertible notes and the advances from 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. Our coking coal demand is predominantly in China; therefore, the steel market performance in China in turn affects our production and planning.

According to the data of the National Bureau of Statistics of China ("**NBS**"), the second quarter Gross Domestic Product ("**GDP**") of China advanced 6.2%, a drop from 6.4% in the first quarter and also one of the weakest growths since the first quarter of 1992. This is not surprising as the external environment is more complicated than in the past, particularly under the ongoing trade tensions with the US, weakening global demands, and deteriorating trade activities. Added-value industrial output of enterprises above the designated size grew by 5.8% in September 2019, rose from 4.4% in August 2019. Fixed assets investment grew by 5.4% in January to September 2019, down from 5.5% for the first eight months of 2019.

Despite the adverse economic environment, the global crude steel production reached 1,391 million tonnes for the first nine months in 2019, according to the recent data of the World Steel Association. China remained the biggest crude steel producing country in the world during this period, producing 748 million tonnes and accounting for 53.8% of the world's crude steel production, up 8.4% compared with the same period in 2018. Notwithstanding the surge in production of steel, mainly driven by domestic demand, China's steel industry is facing pressure of high production costs and under the effects of the Supply-side Reform. Environmental awareness is also an issue as the steel industry is the latest front war on pollution in China. Steel plants are considered one of the biggest sources of harmful emission.

For the first half of 2019, the steel export volume of China was 34.4 million tonnes, a drop of 2.6% compared with 35.4 million tonnes year on year. The value of the export had decreased by 9% from US$27.8 billion in 2018 to US$25.4 billion during this period. Steel of China is mainly exported to developing countries mostly in Asia. Due to the downward pressure of the China economy, and the shrinking of profits as a result of the rising raw material prices, these factors may pose negative impact on steel production in medium to long term which will in turn drag its coking coal consumption.

In respect of the coal industry, China demonstrated a steady and modest growth in the first half of this year. According to the data of the NBS, China produced 2.7 billion tonnes of raw coal for the first nine months of 2019, an increase of 4.5% compared with the same period last year. Coal import into China for the same period was 251 million tonnes, up 9.5% compared with that of 2018 while the coal export was 4.2 million tonnes, an increase of 22.2%. On the side of coking coal, based on the China Customs data, the accumulated coking coal import for the first nine months of 2019 was 61 million tonnes, an increase of 19.9% compared with that of 2018 while export was 1.1 million tonnes, an increase of 42.1%. The total import of coking coal this year has been expected to be higher than 64.9 million tonnes of 2018. Import of coking coal in September recorded a decrease from 9.07 million tonnes to 8 million tonnes compared with August. The coal mining and washing industry in China reported a profit of RMB216.5 billion, a decrease of 3.2% for the first nine months of 2019.

Trades between China and Mongolia continued to rise in the first half of 2019. Export values of Mongolia to China reached US$3.56 billion while import value from China only amounted to US$931 million, according to the data of the National Statistical Office of Mongolia. Major export items from Mongolia to China include coal, copper, molybdenum, wool, cashmere and agricultural products. In respect of coal, according to the National Statistical Office of Mongolia, Mongolia produced 39 million tonnes of coal in the first nine months of 2019, surging 15.5% compared with the same period last year. In terms of export, Mongolia is one of the top coking coal suppliers to China. According to the data of the PRC customs, it supplied 27 million tonnes of coking coal to China from January to September this year, just marginally ahead of Australia.

Exports of Mongolia increased by US$663.3 million for the first nine months of 2019 compared with the previous year; this was mainly attributed to the rise of coal exports by US$312.5 million and gold by US$199.8 million. According to the Coal Association of Mongolia, coal export amounts to one third of the total export revenue of Mongolia. Due to the important role played by the coal industry, it is the tendency of the Mongolian government to fully support its coal industry. The Mongolian government also plans to improve its transportation problems in order to boost export of coking coal.

BUSINESS REVIEW

Coal Sales

Benefiting from the increasing demand of coking coal in China, the sales amounts from our customers in Xinjiang surged approximately HK$437.2 million during the Financial Period compared with the same period last year.

Coal Production

During the Financial Period, approximately 4,668,100 bank cubic meters ("**BCM**") of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2018: 1,192,300 BCM). Production of coking coal (before processing) and thermal coal were approximately 884,200 tonnes and 128,500 tonnes respectively (2018: 432,700 tonnes and 431,000 tonnes).

Coal Processing

During the Financial Period, approximately 896,500 tonnes of ROM coal (2018: 469,000 tonnes) were processed by the dry coal processing plant, producing approximately 713,300 tonnes of raw coking coal (2018: 392,100 tonnes). The average recovery rate was 79.6%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customers. In Xinjiang, approximately 846,500 tonnes of raw coking coal (2018: 386,300 tonnes) were processed by the washing plant, producing approximately 653,700 tonnes of clean coking coal (2018: 334,700 tonnes). The average recovery rate was 77.2%.

Customers and Sales

We concluded a master coal supply contract with our major customer in Xinjiang at the beginning of this year (raw coal without processing); however, the actual sales price and quantity to be delivered have to be negotiated and mutually agreed from time to time, monthly in general, between the parties. Under the said master contract, clearing is based on the actual clean coking coal delivered after washing, and on this basis, we sold 403,400 tonnes of clean coking coal to this customer during the Financial Period. It accounted for approximately 50.4% of our revenue in the Financial Period.

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.

Apart from our major customer for coking coal, we had three 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

The year of 2019 coincides with the 70th anniversary of the establishment of diplomatic relations between Mongolia and China. Various governmental meetings, mutual visits as well as people-to-people diplomacy engagements and local provincial events have been planned and successfully organized this year between the two nations. Within the framework of celebrating this historic milestone, the Chinese Vice-Chairman Wang Qishan made an official visit during the Mongolia's Naadam festival in July 2019. Mongolia then takes an active part in China's Belt and Road Initiative to tap into these regional opportunities for economic growth. For the sake of building stronger ties with its neighboring economies, the two countries concluded several agreements strengthening the regional trade. The Mongolia-China-Russia Economic Corridor is another concrete example of an effective cooperation agreed to be accelerated between the presidents of these countries during the Trilateral High-Level Meetings. For Mongolia, being a land-locked country, the possibility of having greater volumes of transit shipment offered by the Economic Corridor will have positive impacts on the country's economic competitiveness.

Early this year, the Parliament of Mongolia introduced changes to the Minerals Law of Mongolia (the "**Minerals Law**"). Prior to this, only the mining license holders had an obligation to pay royalty as calculated from sales price of all type of minerals they sold or shipped for sale or used from the mining sites. Therefore, no royalty was imposed on those buying minerals from the miners for export. The Minerals Law now intended to include any person i) selling minerals; ii) shipping minerals for sale; and iii) using minerals with the obligation to pay royalty to the Mongolian government. However, this change has been challenged by the constitutional court of Mongolia as being contradicting the Mongolian constitution. The latest position ruled by the constitutional court is that the provisions of the Minerals Law relating to royalty payments were entirely invalidated by the majority members of the court due to violation of principles stated in the Mongolian constitution. As this is the final decision and no further appeal, this creates confusion among the Mongolian government and the mining industry. We trust that there will be heated debates on the effects of this decision and amendments to the Minerals Law relating to these provisions. We do not anticipate any impact on our operation based on this decision and will keep a close watch on the developments.

The mineral resources export also plays an important role in Mongolia's economies. Its outstanding performance in 2019 contributed to positive balance in its foreign trade. The International Monetary Fund's Mission to Mongolia concluded that the fiscal balance and the public debts have been substantially improved by mid 2019 due to surge of tax revenue and containment of the expenditures.

The Parliament of Mongolia recently revised its general tax law including corporate income tax. Corporate Income tax is a tax collected from companies based on the net income companies obtained while exercising their business activity during the business year. The changes will come into effect in 2020. Those businesses earning in excess MNT6 billion, which used to be MNT3 billion, will be required to pay at a tax rate of 25%. The change does not have any impact on our financial positions.

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

In respect of the claim of US$13.5 million lodged by Thiess since 2013, there have not been any substantial case developments since the exchange of the Supplemental Witness Statements last year. The parties have also yet to agree on the list of issues to be addressed in the expert report. We will continue to pursue the case to protect our best interest.

Tenancy Agreement

We renewed our office tenancy agreement on 8 May 2019. The subject premises have been used as the principal place of business of the Company in Hong Kong since 2015, and the new tenancy is for a term of two years commencing from 8 May 2019 and expiring on 7 May 2021 at a monthly rental of HK$355,250 (exclusive of rates, government rent, management fees and all other outgoings).

The Landlord is an investment holding company wholly and beneficially owned by Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), the Chairman and executive Director of the Company. As Mr. Lo is a connected person of the Company, the tenancy agreement constituted a connected transaction for the Company under Chapter 14A to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"). For details, please refer to the announcements made by the Company on 8 May 2019 and 15 May 2019.

FINANCIAL REVIEW

Updates on the Plan to Address the Disclaimer of Audit Opinion Arising from the 2019 Annual Audit

The fundamental reason for the disclaimer of audit opinion (the "**Disclaimer**") made by the independent auditor for the year ended 31 March 2019 was the uncertainty affecting going concern of the Company arising from the expiry of convertible notes in November 2019 due to three note holders.

On 21 November 2019, the Company entered into (i) a standstill agreement with Golden Infinity Co., Ltd ("**GI Standstill Agreement**"), the holder of the convertible note in the principal amount of approximately HK$542.3 million which was matured on 21 November 2019 ("**GI Convertible Note**"); and (ii) a standstill agreement with Chow Tai Fook Nominee Limited ("**CTF Standstill Agreement**"), the holder of the convertible note in the principal amount of approximately HK$2,424.8 million which was matured on 21 November 2019 ("**CTF Convertible Note**"). Both standstill agreements extend the time of repayment of all amounts outstanding under the GI Convertible Note and CTF Convertible Note from 21 November 2019 to 21 May 2020 with interest rate of 3% per annum unchanged. After the preliminary announcement of interim results of the period ended 30 September 2019, the Company entered into subscription agreements with the two parties respectively on 28 November 2019 to repay all amounts outstanding under the GI convertible Note and the CTF Convertible Note. The completion of these subscription agreements is conditional upon, among others, the approval by the independent shareholders of the Company at a special general meeting to be held in early 2020.

On the other hand, the convertible notes in the aggregate principal amount of approximately HK$499.9 million, were also matured on 21 November 2019 ("**ZV Convertible Note**"). Mr. Lo the Chairman and executive director of the Company has, through Ruby Pioneer Limited ("**Ruby Pioneer**"), a company wholly-owned by him, taken up the ZV Convertible Note (the "**RP Note**") on 21 November 2019. Immediately after the aforesaid taking up, the Company and Ruby Pioneer entered into a standstill agreement pursuant to which Ruby Pioneer has agreed to extend the time of repayment of the aggregate amount outstanding under the RP Note for five years from 21 November 2019 to 21 November 2024 while the interest on the principal amount of the RP Note shall continue to accrue at the interest rate of 3% per annum.

Based on the above, the Company believes the Disclaimer will be removed provided that the aforesaid subscription of new convertible notes will be completed before the publication of the financial results for the year ending 31 March 2020.

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$4,616.4 million and net current liabilities of approximately HK$5,188.0 million as at 30 September 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: (1) 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$833.0 million as at 30 September 2019 remains valid until 31 March 2021; (2) Mr. Lo does not intend to demand immediate repayment of his advances to the Company; and (3) the Company has executed two standstill agreements with two holders of the convertible notes respectively on 21 November 2019 to stay the repayments conditional to 21 May 2020 (the "**Moratorium Period**"). After the preliminary announcement of interim results of the period ended 30 September 2019, the Company entered into subscription agreements with two holders of the convertible notes. The completion of these subscription agreements is conditional upon, among others, the approval by the independent shareholders of the Company at a special general meeting to be held in early 2020. Besides, the Company has also signed another standstill agreement with a holder of the convertible notes to stay the repayments to 21 November 2024.

During the Financial Period, the Group recorded net cash inflows from operating activities of HK$221.6 million (31 March 2019: HK$113.0 million). In order to reduce finance costs incurred in the Financial Period, the Group repaid a total of HK$136.3 million being partial repayment to Mr. Lo. The borrowings of the Group as at 30 September 2019 were convertible notes and advances from Mr. Lo in aggregate of HK$5,631.4 million (31 March 2019: HK$5,358.1 million). Both of the convertible notes and advances from Mr. Lo are unsecured and classified as current liabilities. As at 30 September 2019, the cash and bank balances of the Group were HK$102.3 million (31 March 2019: HK$65.4 million) and the liquidity ratio was 0.13 (31 March 2019: 0.11).

Trade and Bills Receivables

As at 30 September 2019, trade and bills receivables increased to approximately HK$323.1 million (31 March 2019: HK$240.5 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 2019, 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 of HK$88.8 million (31 March 2019: HK$61.5 million) to be refunded by Mongolian government.

Financial Assets at Fair Value Through Profit or Loss

As at 30 September 2019, the fair value of the financial assets at fair value through profit or loss was HK$82.0 million (31 March 2019: HK$84.6 million), which was approximately 5.9% (31 March 2019: 5.6%) of the total assets of the Group. It represents the Group's interest in Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "**Jade Bird**"), a company listed in Hong Kong. The principal activities of Jade Bird and its subsidiaries are engaging in the technology research, development, marketing and sale of embedded system products and related products in security and fire alarm systems. The Group's investment is approximately 6.13% of the total issued share capital of Jade Bird. During the Financial 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$2.5 million (31 March 2019: HK$30.5 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.

Charge on Group's Assets

There was no charge on the Group's assets as at 30 September 2019 (31 March 2019: Nil).

Gearing Ratio

As at 30 September 2019, the gearing ratio of the Group was 4.0 (31 March 2019: 3.5) 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 2019, 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

As recently pointed out by the World Trade Organization ("**WTO**"), the global trade outlook for 2019 and 2020 is discouraging under the escalating trade tensions and a slowing global economy. The WTO economists lowered their forecasts for trade growth to only 1.2% in 2019 and 2.7% in 2020, substantially cut from their previous forecasts. The International Monetary Fund also revised its forecasts by lowering the global growth to 3% this year. Whether improvement will be made depends on the global relations and developments of the trade tensions.

Although the global steel market including China continued to grow during the Financial Period, Australia, the world's top iron ore exporter, warned in its quarterly report that the outlook for global steel demand are clouding by the trade tensions between big nations, and the possibility of global economic downturn, which will hard hit the steel section, is looming. China's steel production has been strong this year so far as supported by firm demand from sectors such as property and infrastructure; however, the report said that output in China is facing competing pressures under its falling domestic consumption.

According to the data of the Chinese government, the third quarter GDP of China advanced 6%, a drop from 6.2% in the second quarter, which is the slowest growth rate since the first quarter of 1992, particularly under adverse effects of the ongoing trade tensions with the US, weakening global demands, and deteriorating trade activities. It is expected that the growth in the fourth quarter will further deteriorate making the country's full-year growth rate to be 6.1%.

Turning to the domestic coal market in China, it is expected that the demand, in general, will slip due to three major factors: (i) the external economic environment is weakening, resulting in export contraction which ultimately impacts the coal consuming related industries; (ii) the property market is on track of adjustment. Constructions under new projects have been growing slower. Investment in manufacturing and infrastructure is also slowing as the nation has been shifting from an investment driven growth model to one more focused on consumer demand for its economy; and (iii) the environmental control policies for greener air. Steel and coal industries have been identified as the latest front in its war on pollution. To reduce harmful emissions, this would require coal consumption to be cut or replaced by renewable energy. Under this background, we anticipate there will be tighter policies to curb these industries from further expansion. On the other hand, China has in recent years regulated import of coal to help local miners by limiting the amount of coal shipped into China. Last year, import cargoes of coal were almost shut in the final weeks of the year.

Benefitting from the satisfactory growth of steel production and the Supply-side Reform, our sales orders had been surged during the Financial Period, notwithstanding the tough external environment. However, as set out above, the global conditions and the market trend are highly unpredictable. Since our production and export of coal are closely linked to the market and other conditions, it is not certain if our performance could be maintained in the second half of the financial year due to the economic and policy reasons outlined above. In any event, we anticipate the demand of coking coal from our customers may slow down in the second half of the financial year as they have already stocked up in the first three quarters of this year. Furthermore, winter is also a season inefficient for long haul transportation. Against these backdrops, we will do our best in planning by adopting a prudent, flexible and closely-watch approach in our operations and production in response to the ever-changing market conditions.

APPRECIATION

In view of the above-mentioned internal and external factors, we believe the outlook is 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 2019

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the Financial Period (2018: Nil).

DIRECTORS' INTERESTS

As at 30 September 2019, 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 2019, 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 2019, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

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

Name of Shareholders	Number of shares and/or underlying shares					Percentage of nominal value of issued share capital
	Beneficial/Personal interests	Spouse interests	Corporate interests	Total interests		
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%
Varga Zoltan	645,504,558	–	–	645,504,558		34.31%
Dr. Cheng Kar Shun	–	19,775,000	78,892,500	98,667,500	(Note 4)	5.24%
Ms. Ip Mei Hing	–	78,892,500	19,775,000	98,667,500	(Note 4)	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 3,260,224,374 shares 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. *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 2019.

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 2019	Granted during the period	Lapsed during the period	Exercised during the period	As at 30 September 2019
Mr. Lo	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	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	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	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	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)	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					190,000,000	–	–	–	**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 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 in accordance with the Bye-laws of the Company. Therefore, the Company considers that sufficient measures have been taken to ensure the Company's corporate governance practices are no less exacting than those set out in the CG Code.

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

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

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

Due to other business engagement, the Chairman was unable to attend the 2019 AGM. The Managing Director of the Company took the chair of the 2019 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 2019 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 for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "**Model Code**"). The Code is sent to each Director on his/her initial appointment and from time to time when the same is amended or restated.

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

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 date 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 half year results, all the Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published.

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

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

Having made specific enquiry 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 2019.

HUMAN RESOURCES

As at 30 September 2019, excluding site and construction workers directly employed by our contractors, the Group employed 775 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 currently 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 2019.

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 2019

	Notes	Six months ended 30 September 2019 HK$'000 (unaudited)	2018 HK$'000 (unaudited)
Revenue	*3*	**800,146**	360,372
Cost of sales		**(434,834)**	(207,485)
Gross profit		**365,312**	152,887
Other income	*4*	**4,966**	1,876
Other gains and losses	*5*	**(2,834)**	(37,131)
Administrative expenses		**(74,532)**	(64,356)
Changes in fair value on derivative component of convertible notes	*17*	**81**	63,584
Impairment loss on property, plant and equipment		**(277,470)**	–
Impairment loss on intangible assets		**(29,432)**	–
Impairment loss on right-of-use assets		**(346)**	–
Reversal of impairment loss (impairment loss) on financial assets		**11**	(2,508)
Finance costs	*6*	**(409,993)**	(354,017)
Loss before taxation	*8*	**(424,237)**	(239,665)
Income tax (expense) credit	*7*	**(62,829)**	3,520
Loss for the period attributable to owners of the Company		**(487,066)**	(236,145)
Loss per share attributable to owners of the Company	*10*		
– basic and diluted loss per share (HK cents)		**(25.89)**	(12.55)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	Six months ended 30 September	
	2019	**2018**
	HK$'000	**HK$'000**
	(unaudited)	**(unaudited)**
Loss for the period	**(487,066)**	(236,145)
Other comprehensive expense		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences arising on translation	**(16,681)**	(19,101)
Total comprehensive expense for the period	**(503,747)**	(255,246)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	Notes	30 September 2019 HK$'000 (unaudited)	31 March 2019 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*11*	546,726	801,774
Right-of-use assets	*11*	9,415	–
Intangible assets	*11*	56,443	83,056
Exploration and evaluation assets	*12*	2,811	270
Interests in associates		–	–
Other asset		1,150	1,150
Prepaid lease payment		–	1,057
Deferred tax asset		–	16,441
		616,545	903,748
Current assets			
Inventories	*13*	155,643	131,231
Prepaid lease payment		–	24
Trade and bills receivables	*14*	323,071	240,515
Other receivables, prepayments and deposits	*15*	105,483	72,798
Prepaid taxation		13,955	16,822
Financial assets at fair value through profit or loss ("**FVTPL**")		82,048	84,586
Amount due from associate		–	–
Cash and cash equivalents		102,284	65,399
		782,484	611,375
Current liabilities			
Trade payables	*16*	182,979	125,605
Other payables and accruals		134,835	131,992
Contract liabilities		14,381	2,296
Tax liabilities		–	894
Advances from a Director	*23(a)*	1,746,105	1,811,728
Convertible notes	*17*	3,885,297	3,546,397
Lease liabilities		5,484	–
Deferred income		1,368	1,458
		5,970,449	5,620,370
Net current liabilities		(5,187,965)	(5,008,995)
Total assets less current liabilities		(4,571,420)	(4,105,247)
Non-current liabilities			
Deferred income		6,872	7,378
Deferred tax liabilities		35,058	–
Lease liabilities		3,022	–
		44,952	7,378
Net liabilities		(4,616,372)	(4,112,625)
Financed by:			
Capital and reserves			
Share capital	*18*	37,625	37,625
Reserves		(4,653,997)	(4,150,250)
Capital deficiencies attributable to owners of the Company		(4,616,372)	(4,112,625)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019

	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$'000	Statutory Surplus Reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2018 (audited)	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)
At 1 April 2019 (audited)	37,625	51,463	3,451,893	29,731	(7,474)	17,192	(7,693,055)	(4,112,625)
Loss for the period	–	–	–	–	–	–	(487,066)	(487,066)
Other comprehensive expense								
Exchange differences arising on translation	–	–	–	–	(16,681)	–	–	(16,681)
Total comprehensive expense for the period	–	–	–	–	(16,681)	–	(487,066)	(503,747)
At 30 September 2019 (unaudited)	37,625	51,463	3,451,893	29,731	(24,155)	17,192	(8,180,121)	(4,616,372)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

	Six months ended 30 September 2019 HK$'000 (unaudited)	2018 HK$'000 (unaudited)
Net cash generated from operating activities	221,629	17,233
Net cash used in investing activities:		
Purchase of property, plant and equipment	(43,629)	(10,767)
Other investing cash flows	(2,293)	1,416
	(45,922)	(9,351)
Net cash (used in) financing activities:		
Repayment of advances from a Director	(136,344)	–
Principal elements of lease payments	(1,879)	–
Repayment of a short term loan	–	(9,164)
	(138,223)	(9,164)
Net increase (decrease) in cash and cash equivalents	37,484	(1,282)
Cash and cash equivalents at beginning of the period	65,399	83,448
Effect of foreign exchange rate changes	(599)	(6,066)
Cash and cash equivalents at end of the period	102,284	76,100

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

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. The Directors have reviewed the Group's cash flow projections prepared by management. The cash flows projections cover a period of not less than 12 months from 30 September 2019 and include below assumptions: (1) 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. As at 30 September 2019, advances from a Director of HK$1,746.1 million comprised principal amount and accrued interest of HK$1,067.0 million and HK$679.1 million respectively. The balance of the unutilised facilities of HK$833.0 million remains valid until 31 March 2021 and Mr. Lo does not intend to demand repayment of the loan until the Company has sufficient cash to make repayment; and (2) the Company will exercise its endeavour to complete the negotiation and reach an agreement with the holders of the convertible notes about the debt refinancing plans.

While recognising that the Group had net liabilities of approximately HK$4,616.4 million and had net current liabilities of approximately HK$5,188.0 million at 30 September 2019 and incurred a loss of approximately HK$487.1 million for the six months then ended, the Directors are of the opinion that, taking into account of the above assumptions, the Group will be able to meet its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

However, should the above debt refinancing plan not be able to implement successfully, the Group may not have sufficient funds to operate as a going concern, in which case adjustments might have to be made to the carrying values of the Company's assets to their recoverable amounts, to reclassify the non-current assets and non-current liabilities as current assets and current liabilities, respectively and to provide for any further liabilities which might arise.

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.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 April 2019 for the preparation of the Group's condensed consolidated financial statements:

HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRS (Amendments)	Annual Improvements to HKFRSs 2015 – 2017 Cycle
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

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

Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "Leases", and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 16 "Leases" (Continued)

Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 16 "Leases" (Continued)

Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 "Financial Instruments" and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets. Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. In the opinion of the Directors, the impact of the adjustments are insignificant to the condensed consolidated financial statements at initial recognition and at the end of the reporting period.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 16 "Leases" (Continued)

Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies of application on HKFRS 16 "Leases" (Continued)

Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

As at 1 April 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK$2,553,000 and right-of-use assets of HK$3,634,000 at 1 April 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.3%.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee **(Continued)**

	1 April 2019 HK$'000
Operating lease commitments disclosed as at 31 March 2019	3,095
Lease liabilities discounted at relevant incremental borrowing rates	2,913
Less: recognition exemption – low-value assets	(38)
Less: recognition exemption – short-term leases	(322)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 April 2019	2,553
Analysed as:	
Current	1,359
Non-current	1,194
	2,553

The carrying amount of right-of-use assets as at 1 April 2019 comprises the following:

	Right-of-Use assets HK$'000
Right-of-use assets relating to operating leases of office premises recognised upon application of HKFRS 16	2,553
Reclassified from prepaid lease payment *(Note)*	1,081
	3,634
By class:	
Land and buildings	3,634

Note:

*Upfront payments for leasehold lands in the People's Republic of China (the "**PRC**") were classified as prepaid lease payment as at 31 March 2019. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payment amounting to HK$24,000 and HK$1,057,000 respectively were reclassified to right-of-use assets. There is no impact of transition to HKFRS 16 on accumulative losses at 1 April 2019.*

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 coals are delivered to the customers and accepted by the 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 2019

	Coal mining HK$'000	Total HK$'000
Segment revenue	800,146	800,146
Segment profit	14,246	14,246
Unallocated expenses *(Note)*		(25,941)
Other income		–
Other gains and losses		(2,679)
Changes in fair value on derivative component of convertible notes		81
Finance costs		(409,944)
Loss before taxation		(424,237)

Note:

Unallocated expenses mainly included staff costs for corporate office, depreciation of right-of use assets and legal and professional fees.

3. REVENUE AND SEGMENT INFORMATION (Continued)

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.

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

	30 September 2019 HK$'000	31 March 2019 HK$'000
Coal mining	**1,251,424**	1,411,311

4. OTHER INCOME

	Six months ended 30 September 2019 HK$'000	2018 HK$'000
Government grant	2,426	743
Interest income	235	816
Sundry income	2,305	317
	4,966	1,876

5. OTHER GAINS AND LOSSES

	Six months ended 30 September 2019 HK$'000	2018 HK$'000
Changes in fair value on financial assets at FVTPL	(2,538)	(38,910)
Loss on disposal of property, plant and equipment	–	(125)
Loss on written off of property, plant and equipment	(4)	–
Net exchange (loss) gain	(292)	1,904
	(2,834)	(37,131)

6. FINANCE COSTS

	Six months ended 30 September 2019 HK$'000	2018 HK$'000
Interest on advances from a Director *(Note 23(a))*	70,721	71,331
Interest on other loan *(Note)*	–	100
Interest on lease liabilities	291	–
Effective interest expense on convertible notes *(Note 17)*	338,981	282,586
	409,993	354,017

Note:

The amount represented interest payable to a short term unsecured loan with principal amount of HK$7.4 million. The interest expense was charged at 6% per annum. The loan was fully repaid during the six months ended 30 September 2018.

7. INCOME TAX (EXPENSE) CREDIT

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
Current tax:		
Mongolian corporate income tax	(7,193)	–
PRC Enterprise Income Tax	(3,967)	(2,290)
(Under) over provision in prior periods:		
PRC Enterprise Income Tax	(49)	5,810
Deferred taxation	(51,620)	–
	(62,829)	3,520

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 Mongolian corporate income tax for the six months ended 30 September 2018 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	
	2019	**2018**
	HK$'000	**HK$'000**
Employee benefit expenses, including Directors' emoluments (net of reimbursement from a related party) *(Note 23(c))*	55,801	49,643
Less: employee benefit expenses capitalised in inventories	(19,916)	(16,704)
	35,885	32,939
Amortisation of prepaid lease payment	–	7
Depreciation of right-of-use assets	2,419	–
Amortisation of intangible assets	2,012	842
Depreciation of property, plant and equipment	15,320	9,541

9. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period (2018: 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	
	2019	**2018**
	HK$'000	**HK$'000**
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	**(487,066)**	(236,145)

	Six months ended 30 September	
	2019	**2018**
	'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, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

Property, Plant and Equipment

During the six months ended 30 September 2019, the Group spent approximately HK$9,082,000 (2018: HK$4,794,000), HK$21,575,000 (2018: HK$1,337,000), HK$1,595,000 (2018: HK$378,000) and HK$10,766,000 (2018: HK$3,125,000) on mining structures, construction in progress, plant, machinery and other equipment and motor vehicles respectively. On the date of transition to HKFRS 16 as at 1 April 2019, the Group recognised right-of-use assets of HK$3,634,000 and lease liabilities of HK$2,553,000.

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 right-of-use assets (2018: prepaid lease payments) 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 predicted average coking coal price for the forthcoming four-year period, cost structure and production capacity of the Khushuut Related Assets. According to the recoverable amount assessment, impairment loss amounting to HK$307,248,000 (2018: Nil) was recognised in the condensed consolidated statement of profit or loss in the current period against the respective assets on a pro-rata basis with reference to their carrying values.

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 2018	151	39	190
Addition	–	80	80
At 31 March 2019	**151**	**119**	**270**
Addition	**–**	**2,541**	**2,541**
At 30 September 2019	**151**	**2,660**	**2,811**

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 2019.*

12. EXPLORATION AND EVALUATION ASSETS (Continued)

Notes: (Continued)

(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 2019, 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 2019, 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 2019 HK$'000	31 March 2019 HK$'000
Coal	148,459	125,639
Materials and supplies	7,184	5,592
	155,643	131,231

14. TRADE AND BILLS RECEIVABLES

	30 September 2019 HK$'000	31 March 2019 HK$'000
Trade receivables	99,464	66,547
Bills receivables	189,218	159,226
Accrued income *(Note)*	36,542	17,045
	325,224	242,818
Less: allowance for credit losses	(2,153)	(2,303)
	323,071	240,515

Note:

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

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

The following is an aged analysis of trade receivables, bill receivables and accrued income net of allowance for credit losses.

	30 September 2019 HK$'000	31 March 2019 HK$'000
1 to 30 days	130,649	112,092
31 to 60 days	62,281	58,359
61 to 90 days	53,901	8,233
Over 90 days	76,240	61,831
	323,071	240,515

15. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 September 2019 HK$'000	31 March 2019 HK$'000
Other receivables	3,129	2,188
Prepayments	11,815	7,439
Deposits	1,672	1,668
Others	88,867	61,503
	105,483	72,798

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 2019 HK$'000	31 March 2019 HK$'000
0 to 30 days	53,362	56,068
31 to 60 days	47,117	12,343
61 to 90 days	21,401	–
Over 90 days	61,099	57,194
	182,979	125,605

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 2019 HK$'000	31 March 2019 HK$'000	30 September 2019 HK$'000	31 March 2019 HK$'000	30 September 2019 HK$'000	31 March 2019 HK$'000
At beginning of the period/year	3,546,316	2,955,921	81	63,623	3,546,397	3,019,544
Interest charge	338,981	590,395	–	–	338,981	590,395
Changes in fair value on derivative component	–	–	(81)	(63,542)	(81)	(63,542)
At end of the period/year	3,885,297	3,546,316	–	81	3,885,297	3,546,397

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 ("**Chow Tai Fook**"), 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 interest of convertible notes previously issued to these noteholders.

The 2014 Convertible Notes with aggregate principal amount of HK$3,467,015,000 had a maturity period of five years from the issue date to 21 November 2019. It could be converted into 1 ordinary share of the Company of HK$0.02 each for every HK$0.87 (adjusted) under the convertible notes 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 together with interest 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 would 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 2019	31 March 2019
Stock price	HK$0.10	HK$0.14
Exercise price	HK$0.87	HK$0.87
Volatility *(Note (a))*	87.00%	61.59%
Dividend yield	0%	0%
Option life *(Note (b))*	0.14 years	0.64 years
Risk free rate	2.23%	1.42%

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 2019 was based on the maturity date of the notes.

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

No conversion was made during both periods. See Note 24 for details of the standstill agreements entered into in relation to the 2014 Convertible Notes with certain noteholders after the end of the reporting period.

18. SHARE CAPITAL

Authorised and issued share capital

	30 September 2019 HK$'000	31 March 2019 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.02 each	300,000	300,000

Issued and fully paid	Number of ordinary shares of HK$0.02 each	Amount HK$'000
At 1 April 2018, 30 September 2018, 1 April 2019 and 30 September 2019	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 2019 and 30 September 2019	190,000,000

No share options were exercised for both periods.

20. CAPITAL COMMITMENTS

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

	30 September 2019 HK$'000	31 March 2019 HK$'000
Construction of new stockpile area	953	966
Other exploration related commitments	253	253
Purchase of property, plant and equipment	8,421	8,987
Road improvement and drilling equipment transport	12,506	11,968
Wash plant	18,598	4,250
Others	301	302
	41,032	26,726

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 made the total claims at approximately HK$198.9 million (subsequently consolidated and the claim amount substantially reduced to approximately HK$105.6 million), of which approximately HK$50.0 million was provided for in the condensed consolidated financial statements as at 30 September 2019 (2018: 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 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).

Financial assets/financial liabilities	Fair value as at 30 September 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s) and relationship of unobservable inputs to fair value
1) Investment in equity instruments classified as FVTPL	HK$82,048,000 (31 March 2019: HK$84,586,000)	Level 1	– Quoted bid prices in an active market	N/A
2) Embedded derivative component of convertible notes	HK$ Nil (31 March 2019: HK$81,000)	Level 3	– Binomial Valuation Model	Volatility is 87.00% (31 March 2019: 61.59%)
			– The key inputs are share price, exercise price, time to maturity, risk free rate, volatility and dividend yield	A slight increase in the volatility would result in significant higher fair value measurement, and vice versa *(Note)*

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)

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

Note:

If the volatility of listed share prices of the Company had been 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$Nil (2018: loss for the period would increase by HK$143,000) or decrease by HK$Nil (2018: loss for the period would decrease by HK$36,000), as a result of changes in fair value of the derivative component of the convertible notes.

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

	Embedded derivative component of convertible notes HK$'000
At 1 April 2019	81
Changes in fair value recognised in profit or loss	(81)
At 30 September 2019	–

The change in fair value value 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.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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 2019 HK$'000	31 March 2019 HK$'000
Balance of advances *(Note)*	1,746,105	1,811,728

	Six months ended 30 September	
	2019 HK$'000	2018 HK$'000
Interest charge for the period	70,721	71,331

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.

23. RELATED PARTY TRANSACTIONS (Continued)

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

	30 September 2019 HK$'000	31 March 2019 HK$'000
Convertible note payable	607,744	554,732

	Six months ended 30 September	
	2019 HK$'000	2018 HK$'000
Interest charge on convertible note for the period *(Note (ii))*	8,135	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$53,024,000 (2018: HK$44,203,000).

(c) Transactions with related parties

	Six months ended 30 September	
Nature of transactions	2019 HK$'000	2018 HK$'000
Rental expenses paid to related parties *(Note (i))*	2,271	2,197
Interest on lease liabilities *(Note (i))*	225	–
Reimbursement of sharing of administrative services from a related party *(Note (i) & (ii))*	3,314	3,325

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. The service is charged at cost basis. The Group further renewed the contract with the related party on 18 June 2019 and extended the agreement for a period of 1 year.

23. RELATED PARTY TRANSACTIONS (Continued)

(d) Balance with related parties

	30 September 2019 HK$'000	31 March 2019 HK$'000
Rental deposits payable to related parties *(Note (i))*	441	425

Note:

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

(e) Key management compensation

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

	Six months ended 30 September 2019 HK$'000	2018 HK$'000
Basic salaries, other allowances and benefits in kind	6,284	6,247
Contributions to Mandatory Provident Fund Scheme	27	27
	6,311	6,274

Note:

No share option was granted to the Group's key management for both periods.

24. EVENT AFTER THE REPORTING PERIOD

The 2014 Convertible Notes were matured on 21 November 2019. The Company entered into three standstill agreements with the respective noteholders of the 2014 Convertible Notes to stay the repayment of all outstanding amount under the 2014 Convertible Notes.

Under the standstill agreement with Golden Infinity in respect of the convertible note with the principal amount of approximately HK$542,315,000, Golden Infinity agreed to extend the repayment from 21 November 2019 to 21 May 2020 with the interest rate of 3% per annum unchanged.

Under the standstill agreement with Chow Tai Fook in respect of the convertible note with the principal amount of approximately HK$2,424,822,000, Chow Tai Fook agreed to extend the repayment from 21 November 2019 to 21 May 2020 with the interest rate of 3% per annum unchanged.

In the meantime, the Company has been in active negotiation with Golden Infinity and Chow Tai Fook for subscription of new convertible notes to repay all amounts outstanding under their respective notes. If the proposed subscription of new convertible notes is materialised, the expiry date of the two standstill agreements will be the date of completion of the said subscription or 21 May 2020, whichever is earlier.

On the other hand, the convertible notes with the aggregate principal amount of approximately HK$499.9 million were taken up by Mr. Lo through Ruby Pioneer Limited ("**Ruby Pioneer**"), a company wholly-owned by him on 21 November 2019. Immediately after this, the Company and Ruby Pioneer entered into a standstill agreement pursuant to which Ruby Pioneer has agreed to extend the time of repayment of the aggregate amount outstanding under the RP Note for five years from 21 November 2019 to 21 November 2024 while the interest of the RP Note shall continue to accrue at the interest rate of 3% per annum.