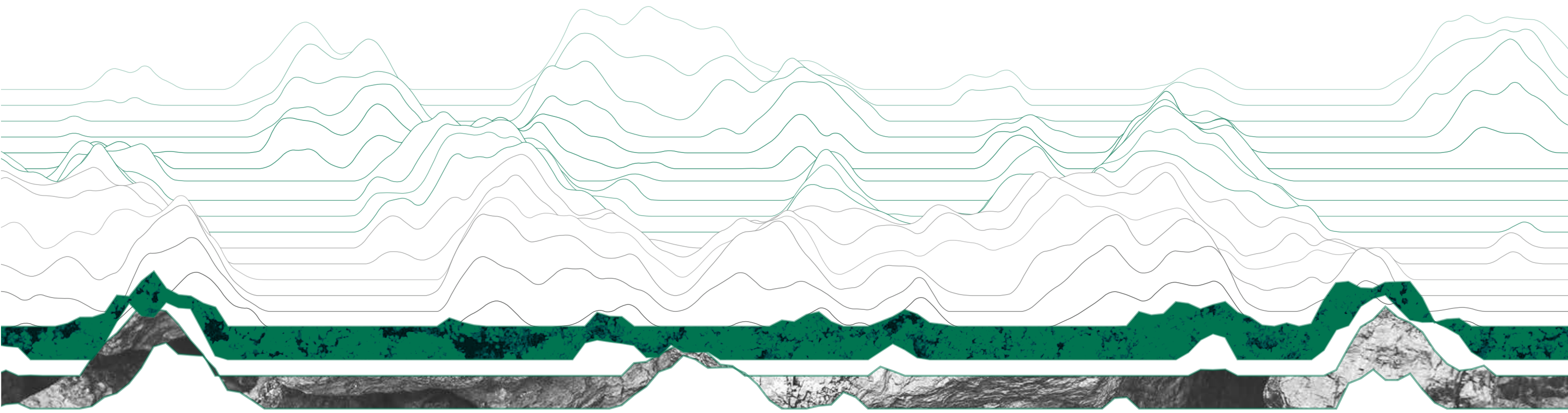
MEC

MONGOLIA ENERGY CORPORATION

蒙 古 能 源 有 限 公 司

Incorporated in Bermuda with limited liability

Stock Code: 276



INTERIM REPORT 2020

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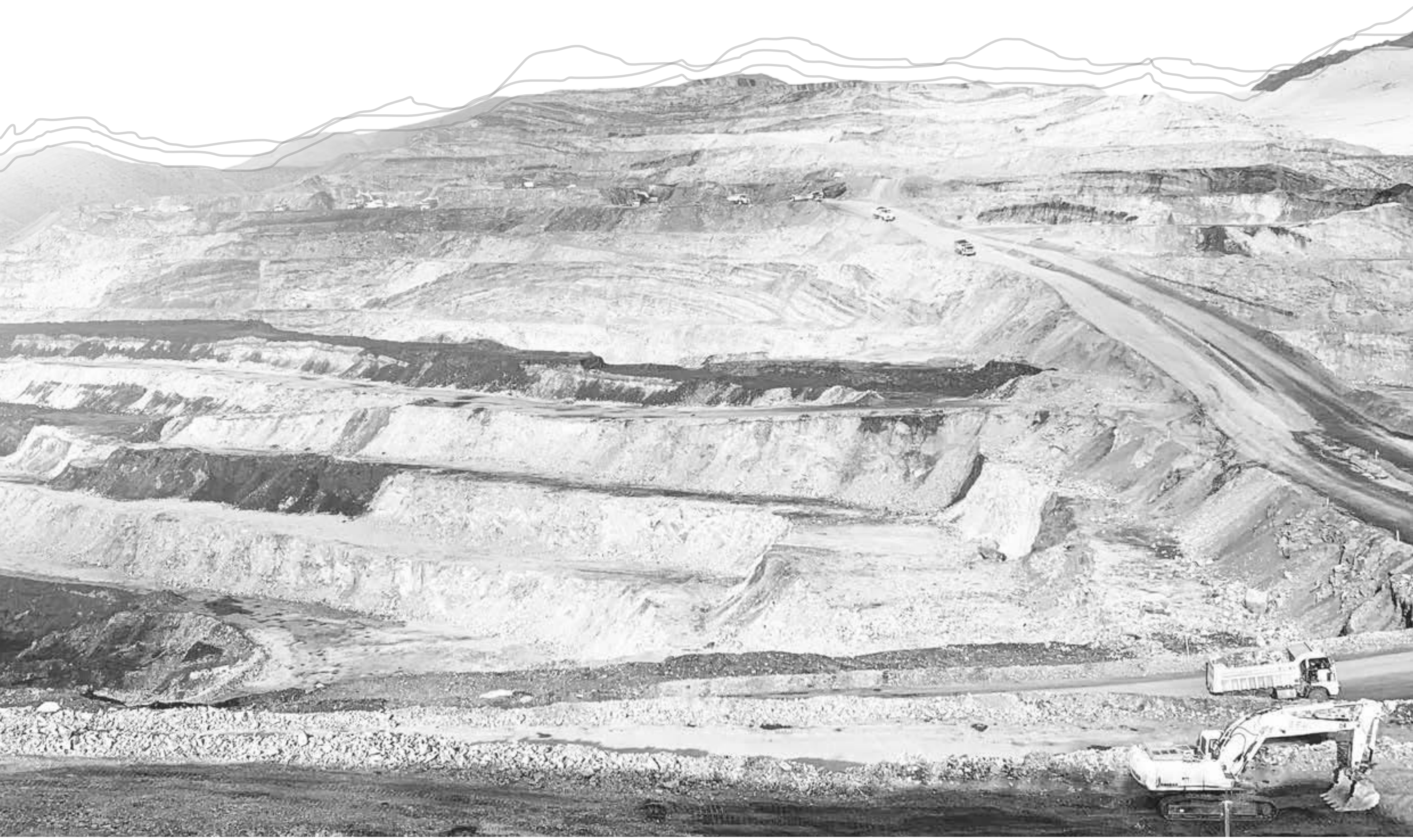

CONTENTS

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 2020 (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, our performance was badly hit by the COVID-19 pandemic. Approximately 336,100 tonnes (2019: 1,012,700 tonnes) of Run-of Mine ("**ROM**") coal were produced and approximately 238,700 tonnes (2019: 696,100 tonnes) of coal, including clean coking coal, thermal coal and raw coal, were sold to our customers during this period.

RESULTS ANALYSIS

Revenue

In the Financial Period, the Group's revenue was HK$268.9 million (2019: HK$800.1 million). The significant decrease of revenue was principally due to the global outbreak of the COVID-19 pandemic which had resulted in widespread of travel restrictions and quarantines imposed in mainland China and Mongolia during the Financial Period. This had negatively impacted the Group's mining operations. During the Financial Period, the Group sold approximately 224,600 tonnes (2019: 618,800 tonnes) of clean coking coal and approximately 14,100 tonnes (2019: 77,200 tonnes) of thermal coal and approximately 34 tonnes (2019: 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$1,194.0 (2019: HK$1,288.1), HK$46.5 (2019: HK$38.6) and HK$647.7 (2019: HK$702.1) 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$169.4 million (2019: HK$434.8 million). The decrease was primarily due to the reduction in sales volume during the Financial Period. It was divided into cash costs of HK$162.9 million (2019: HK$423.6 million) and non-cash costs of HK$6.5 million (2019: HK$11.2 million).

Gross Profit

Gross profit ratio for the Financial Period was declined to 37.0% (2019: 45.7%). The decrease in gross profit ratio was mainly attributable to the decline in average selling price of clean coking coal during the Financial Period.

Other Income

During the Financial Period, a subsidiary of the Group entered into a settlement agreement with an ex-exploration contractor (the "**Contractor**") in respect of legal claims on prepaid contract deposit of approximately HK$33.9 million (equivalent to RMB30.0 million). Under the settlement agreement, the Contractor agreed to refund the deposit by instalments. The refund was treated as other income since the deposit was fully written off in previous financial years for accounting purpose.

Other Gains and Losses

The net loss was mainly due to the fair value loss of HK$9.3 million arising from an investment in a Hong Kong listed company (2019: HK$2.5 million).

Changes in Fair Value on Derivative Component of Convertible Notes

The convertible notes issued by the Company in last financial year (the "**2020 Convertible Notes**") containing both debt and derivative components. The conversion option derivative of the 2020 Convertible Notes requires remeasurement at the end of each reporting period and a resulting loss in fair value change amounting to HK$714.7 million was then recognized in the Financial Period. The major inputs into the binomial valuation model to work out the valuation of the conversion option derivative have been disclosed in the note18(a) to the condensed consolidated financial statements.

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

At the end of the Financial Period, an independent qualified professional valuer was engaged by the Group to determine the recoverable amount of the Mine Assets. The recoverable amount of the Mine Assets is based on the discounted cash flow model that incorporates best estimates made by the management of the Group on 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 2020 and 31 March 2020 are set out as below:

	Notes	30 September 2020	31 March 2020
Discount rate	(a)	24.25%	25.09%
Average current coking coal price per tonne	(b)	US$117	US$133
Inflation rate	(c)	2.38%	2.38%
Predicted average annual growth rate of the coking coal price for the forthcoming four-year period since period/year ended	(d)	3.06%	0.18%

Notes:

(a) *The discount rate is derived from the Group's weighted average cost of capital ("**WACC**") with appropriate adjustments made to reflect the risks specific to the Khushuut Coal Mine. The WACC takes into account both cost of debt and equity, and weighted based on the Group's and comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors and based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of comparable peer companies. The change of discount rate from last year was a combined result of the updates on the WACC including the risk-free rate and other risk premium factors. The risk-free rate adopted was the yield of China 10-year government bond as at 30 September 2020. 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 average annual growth rate was 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.*

In pursuant to the recoverable amount assessment, a charge of impairment amounted to HK$91.7 million was made in the Financial Period (2019: a charge of HK$307.2 million).

Finance Costs

The major components in the finance costs were the effective interest expenses on convertible notes, interest charge on advances from a Director and a loan note. The interest charge on the debt component of the convertible notes issued by the Company was calculated at an effective interest rate of 21.82% per annum (2019: 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 interest of the loan note is charged at an effective interest rate of 22.37% per annum (2019: Nil).

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**"), under the serious challenges posed by the COVID-19 pandemic and the complicated external conditions, the Gross Domestic Product ("**GDP**") of China in the first half of the year recorded a year on year decline of 1.6%. The fall was mainly dragged by the shrinkage of China's economy in the first quarter which was a decline of 6.8% year on year at the height of the pandemic, but soon it showed a sign of recovery by the growth of 3.2% in the second quarter. The economic performance of China in the first half of the year is within anticipation when the trade tensions with the US and the global COVID-19 pandemic were still raging.

Under the adverse economic environment, the global crude steel production was only able to achieve 1,347 million tonnes for the first nine months in 2020, a contraction of 3.2% 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 782 million tonnes and accounting for 58% of the world's crude steel production, up 4.5% compared with the same period in 2019. It was mainly due to the rapid recovery of the steel-consuming sectors of China in April after the COVID-19 outbreak, driven mainly by construction, in particular infrastructure investment, as the PRC government has put forward several new infrastructure initiatives.

For the first nine months of 2020, the steel products export volume of China was 40.39 million tonnes, a drop of 19.6% compared with 50.26 million tonnes year on year. The value of the export had decreased by 20.4% to US$33.19 billion during this period. Steel products of China are mainly exported to developing countries mostly in Asia.

In respect of the coal industry of China, the income of the coal mining and washing sectors recorded a fall of 11.8% in the first half of 2020 compared with the same period last year while the profit shrank 31.2%. Despite the adverse impact of COVID-19, China's raw coal production recorded a slight 0.6% increase to 1.81 billion tonnes in the first half of this year notwithstanding the first quarter decline of 0.5%. According to the data of the NBS, coal import into China for the first half of the year was 174 million tonnes, up 12.7% compared with that of 2019 while the coal export was 1.74 million tonnes, a decrease of 41.7%. In respect of coking coal, the import into China for the first six months was 38.12 million tonnes, an increase of 5.3% year on year. The demand of coking coal continued to show a steady demand. However, due to the practice of import restrictions in September, the import volume recorded 6.72 million tonnes, a decrease of 6.28% from August and also a drop of 15.7% year on year. The total volume of coking coal import of China for the first nine months was 59.4 million tonnes, which was a fall of 2.6% year on year.

Mongolia's economy experienced a contraction of 9.7% year on year in the first half of 2020 due to restrictive coronavirus measures. According to the data of the National Statistics Office of Mongolia, Mongolia traded with 141 countries from all over the world in the first nine months this year. The total trade export and import turnover recorded a decrease of 13.4% and 14.6% respectively. China was still the largest trading partner of Mongolia. There were US$3.78 billion in export of goods from Mongolia to China while the import of goods from China to Mongolia was US$1.46 billion during this period. These accounted for 73.5% of Mongolia's total export and 37.2% of import, which is 57% of Mongolia's total trade turnover. Coal remains the major export item of Mongolia.

Coal production in Mongolia for the first nine months of 2020 was 22.9 million tonnes, a decrease of 40.7% compared with the same period last year. Approximately 19.9 million tonnes of coal produced were exported, which was a fall of 30.9% year on year. The deterioration was mainly due to Mongolia's lock down under the impact of COVID-19. About 96% of the coal exported from Mongolia was shipped is China. According to the data of China Customs, it supplied 16.5 million tonnes of coking coal to China from January to September this year.

According to the World Bank in its report "From Containment to Recovery: Economic Update for East Asia and the Pacific, October 2020", the Mongolian economy is projected to contract by 2.4% in 2020 under the impact of COVID-19 and weak external demand. The mining and services sectors have suffered the greatest impact. Under the COVID-19 restrictions, Mongolia is unable to fulfil its goal to export 40 million tonnes of coal this year. Mongolia is one of the top coking coal suppliers to China. Therefore, we expect the Mongolian government to actively promote its mineral export to boost its economy in the coming year.

BUSINESS REVIEW

Coal Sales

Under the impact of the COVID-19, our coal sales amounts decreased approximately HK$531.3 million during the Financial Period compared with the same period last year.

Coal Production

During the Financial Period, due to the COVID-19 pandemic, only approximately 270,800 bank cubic meters ("**BCM**") of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2019: 4,668,100 BCM). Production of coking coal (before processing) and thermal coal were approximately 279,100 tonnes and 57,000 tonnes respectively (2019: 884,200 tonnes and 128,500 tonnes).

Coal Processing

During the Financial Period, approximately 295,600 tonnes of ROM coal (2019: 896,500 tonnes) were processed by the dry coal processing plant, producing approximately 272,100 tonnes of raw coking coal (2019: 713,300 tonnes). The average recovery rate was 92.1%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customers.

In Xinjiang, approximately 306,100 tonnes of raw coking coal (2019: 846,500 tonnes) were processed by the washing plant, producing approximately 248,600 tonnes of clean coking coal (2019: 653,700 tonnes). The average recovery rate was 81.2%.

Customers and Sales

The Customers of our coking coal are all in Xinjiang. In respect of our major customer, 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. Clearing is based on the actual clean coking coal delivered after washing, and on this basis, we sold 169,900 tonnes of clean coking coal to this customer during the Financial Period. It accounted for approximately 76.0% 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.

We had three customers in Xinjiang for our coking coal 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 COVID-19 has impacted the globe and no country is spare from it. Fortunately, due to various effective measures taken by the Mongolian Government since the beginning of this year to prevent the outbreak of the disease, there was no local contracted case in Mongolia during the Financial Period.

To limit the social and economic impact by the pandemic, the Government of Mongolia presented its economic and social stimulus plans in March including complete exemptions from paying social insurance premiums and personal income tax as well as the corporate income tax from the majority of businesses for a certain period of time. The package further includes monthly allowances to eligible private businesses, reduce loan interest rates for rural economy, government guarantees for some categories of borrowers and child allowances for households. The Government has also arranged funding for various promotion schemes such as the Emergency Relief and Employment Support Project.

During the COVID-19 epidemic, Mongolia and China mutually extended much "good neighbors" relationship. Mongolian President Battulga made a special visit to China at the most severe time of the epidemic in February 2020, expressing support for China and making monetary and material donation. Two virtual conferences for Mongolia-China cooperation in response to COVID-19 pandemic were held in May and July 2020 which were attended by representatives of border, customs, specialized inspection, trade and transport agencies. In addition, at the invitation of Mongolian Minister of Foreign Affairs N. Enkhtaivan, Wang Yi, the Minister of Foreign Affairs of China, paid an official visit to Mongolia in the mid of September. During the official visit, the foreign ministers of the two countries pledged closer ties on mutual trade and economic cooperation between China and Mongolia. Under the framework of mutual economic cooperation, the parties agreed to continue easing the transportation of goods and people under the coronavirus restrictions and agreed on a temporary "Green Gateway" border crossing procedure to be adhered to. This allows visitors of Mongolia and China to enter their respective countries for taking part in bilateral trade, logistics, manufacturing, maintenance, and development projects amid COVID-19.

By the end of August, the newly formed Government presented its 2020-2024 Programme which confirms the Government's priority of developing the responsible, socially benefitting and transparent extractive industry. In its 2020-2024 Programme, the new Government pledges to "consistently protect the interests of foreign investors and support foreign investment in leading economic sectors and mega-projects such as infrastructure, mining, energy, food, agriculture and tourism, and promote their access to soft loans and grants". In line with this objective, an ad hoc committee in the Parliament has been formed to promote foreign investment and trade, including identifying overlapping and gaps in relevant laws, and structural, organizational and budgetary challenges that impede the foreign investment in Mongolia.

The Financial Action Task Force (FATF) on Money Laundering has removed Mongolia from the EU grey list of non-cooperative jurisdictions for tax purposes. To hit this target, the Government of Mongolia adopted Resolution No.350 in 2017 to ensure tax transparency, information exchange, and the implementation of international rules to combat tax evasion, as well as joining "Global Forum on Transparency and Exchange of Information for Tax Purposes" of the Organisation for Economic Corporation and Development as a member country. In line with the organization's recommendations, the legal framework for information exchange, transparency, cooperation, and tax evasion has been incorporated into domestic legislation as part of the tax reform package.

Therefore, active policies have been seen rolling out to encourage foreign investment and to strengthen the trade and social relationship of China and Mongolia. This helps to promote the export of mineral products from Mongolia to China.

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 in May 2018. The parties have also yet to agree on the list of issues to be addressed in the expert report. However, we received a Notice of Intention to Proceed with these proceedings ("**Notice**") by Thiess at the end of July. Subsequent to that, we received its further request to amend its Statement of Claims by inserting a clause under the mining agreement which provides that the Group should not withhold payments because of the existence of a dispute. We will respond by filing our amended Defence and we will continue to pursue the case to protect our best interest.

FINANCIAL REVIEW

Liquidity and Financial Resources

In preparing the condensed consolidated financial statements, the Directors have given careful consideration of the future liquidity of the Group. While recognising that the Group had net liabilities of HK$3,360.9 million and net current liabilities of approximately HK$1,434.2 million as at 30 September 2020, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future given that: (1) Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder and chairman of the Company who has significant influence over the Group, has provided facilities amounting to HK$1,900.0 million. The balance of the unutilised facilities of HK$936.9 million as at 30 September 2020 remains valid until 31 March 2022; and (2) Mr. Lo does not intend to demand immediate repayment of his advances to the Company. The borrowings of the Group as at 30 September 2020 were convertible notes, loan note and advances from Mr. Lo in aggregate of HK$5,103.2 million (31 March 2020: HK$4,136.3 million). Apart from advances from Mr. Lo which are unsecured and classified as current liabilities, the convertible notes and loan note are classified as non-current liabilities. As at 30 September 2020, the cash and bank balances of the Group were HK$51.7 million (31 March 2020: HK$61.8 million) and the liquidity ratio was 0.32 (31 March 2020: 0.30).

Property, Plant and Equipment

The decrease in the carrying values of the property, plant and equipment was due to the charge of impairment loss amounting to HK$82.5 million (2019: HK$277.5 million). During the Financial Period, the Group had incurred capital expenditures of approximately HK$2.1 million (2019: HK$43.6 million).

Trade and Bills Receivables

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 2020, 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.

Inventories

The production and sales of the Group were back to normal gradually since August 2020. The Group kept a high inventory level at the end of the Financial Period in order to cater for the normal sales activities afterwards.

Other Receivables, Prepayments and Deposits

It mainly comprised prepaid value added tax of HK$115.7 million (31 March 2020: HK$106.2 million) to be refunded by the government of Mongolia.

Financial Assets at Fair Value Through Profit or Loss

As at 30 September 2020, the fair value of the financial assets at fair value through profit or loss was HK$42.3 million (31 March 2020: HK$51.6 million), which was approximately 2.0% (31 March 2020: 2.4%) 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% (31 March 2020: 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$9.3 million (2019: HK$2.5 million).

Other Payables and Accruals

The major components were balance payments of capital expenditures due to construction companies 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 2020 (31 March 2020: Nil).

Gearing Ratio

As at 30 September 2020, the gearing ratio of the Group was 2.4 (31 March 2020: 1.9) 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 2020, 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

The COVID-19 continues to cast its shadow on all aspects of lives of the people around the globe. It is quite certain that the economies of almost all countries have been hit by the epidemic in 2020. The International Monetary Fund ("**IMF**") projects under its latest World Economic Outlook report that the global economy would contract by 4.4% in 2020. Although it has adjusted upward from the adverse impact in its June forecast, the IMF further points out that the projection is still subject to uncertainties, including the possibility of resurgence of the virus, growing restrictions on trade and investment, as well as rising geopolitical uncertainty.

Under the impact of COVID-19, the economic performance of China soon recovered in the second quarter from its badly hit first quarter after re-opening of most factories and resumption of industries. Economic recovery continued to pick up in the third quarter as activities normalized amid effective control of the epidemic and the government measures in stimulating demand and consumption. According to the NBS, China's GDP expanded 4.9% year on year in the third quarter, bringing the growth of 0.7% for the first three quarters of 2020 notwithstanding the contraction recorded in the first quarter of the year. Based on the trend of various indicators, the IMF predicts China's economy to grow by 1.9% in 2020, which should be the forefront country on the track of economic recovery.

In respect of global steel demand, the World Steel Association forecasts that steel demand will contract 2.4% in 2020, but it will gain recovery of 4.1% in 2021. China's steel demand is expected to increase by 8% in 2020, aided by government infrastructure stimulus and a strong property market. In 2021, the infrastructure and housing projects will continue to support steel demand. Given China has a structural shortage of premium quality coking coal for its steel industry, we expect China to have a reasonable stable demand from Mongolia to supply quality coking coal till the end of this year and throughout 2021.

As seen and reflected from our results in the Financial Period, same as many other industries, we have been hard hit by the global outbreak of COVID-19, which has resulted in widespread of travel restrictions and quarantines imposed in mainland China, Mongolia and Hong Kong. Our coking coal export to China was halted since February this year and only managed to resume at the end of May. This has brought our performance down by 66.4% in revenue compared with the same period last year. However, during this challenging period, we were thankful to both the Chinese and Mongolian governments which made every endeavor to strike a balance among public health protection, social measures and border control for import and export. Mongolia has implementing the "Green Gateway" temporary customs regulation with the Chinese Government for increasing capacity of coal deliveries, and our export volume had been gradually restored to normal since this August.

The COVID-19 pandemic has disrupted the economy of Mongolia to a substantial extent. Its GDP has been down 9.7% year on year in the first half of the year due to the restrictive COVID-19 measures. The whole year GDP of 2020 is predicted to contract 2 to 4% but will be recovered at a growth rate of 8.2% next year. Due to the impact of the epidemic, Mongolia is unable to achieve its coal export of 40 million tonnes this year. During the meeting between the foreign ministers of China and Mongolia in September, both countries have pledged to advance cooperation in epidemic response and to promote cultural and economic ties. Based on the speedy economic recovery of China and the mutual understanding of both countries, the Mongolian government is planning to increase coal exports to 42 million tonnes in 2021, which will bring MNT 1.3 trillion revenue to its country from coal export in 2021.

Although our production and export have been gradually improved, the coming winter is an invariable season inefficient for long haul transportation. In addition, Mongolia has recently reported its first local COVID-19 case and immediately implements a country lockdown in November until early December. Fortunately, our coal export has not been restricted under the lockdown but both sides of the governments are taking the strictest preventive measures in response to the export and import process to ensure no transmission of the virus in the course of shipping. We anticipate this may again slow down our coal export process and impact the amount imported into Xinjiang from time to time under the unpredictable waves of COVID-19. We will, nevertheless, do our best in planning and production to catch up our performance by riding on the track of economic rebound of China and Mongolia for the remaining of this financial year.

As we are only concentrating on coal mining, and under the unforeseeable impact of the epidemic, the Board considers that it is the right time to look for other business opportunities to broaden our revenue base, in order to diversify any unexpected risks of single industry faced by the Group and to add value for our shareholders. We have set up a task force to identify new business ventures.

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, 25 November 2020

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the Financial Period (2019: Nil).

DIRECTORS' INTERESTS

As at 30 September 2020, 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**")	124,000	43,750	30,151,957 (Note)	1,800,000	602,204,563 (Note)	634,324,270	337.18%
Ms. Yvette Ong	27,250	–	–	1,000,000	–	1,027,250	0.55%
Mr. Lo, Rex Cze Kei	–	–	–	1,500,000	–	1,500,000	0.80%
Mr. To Hin Tsun, Gerald	135,000	–	–	500,000	–	635,000	0.34%
Mr. Tsui Hing Chuen, William JP	12,500	–	–	500,000	–	512,500	0.27%
Mr. Lau Wai Piu	5,030	–	–	500,000	–	505,030	0.27%
Mr. Lee Kee Wai, Frank	–	–	–	500,000	–	500,000	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 2020, 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 2020, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

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

	Number of shares and/or underlying shares				
Name of Shareholders	**Beneficial/ Personal interests**	**Spouse interests**	**Corporate interests**	**Total interests**	**Percentage of nominal value of issued share capital**
Cheng Yu Tung Family (Holdings) Limited		–	2,698,101,424	2,698,101,424 *(Note 1)*	1,434.20%
Cheng Yu Tung Family (Holdings II) Limited	–	–	2,698,101,424	2,698,101,424 *(Note 1)*	1,434.20%
Chow Tai Fook (Holding) Limited	–	–	2,698,101,424	2,698,101,424 *(Note 1)*	1,434.20%
Chow Tai Fook Capital Limited	–	–	2,698,101,424	2,698,101,424 *(Note 1)*	1,434.20%
Chow Tai Fook Nominee Limited	2,698,101,424	–	–	2,698,101,424 *(Notes 1 & 2)*	1,434.20%
Ms. Ku Ming Mei, Rouisa	43,750	634,280,520	–	634,324,270 *(Note 3)*	337.18%
Golden Infinity	632,356,520	–	–	632,356,520	336.14%
Dr. Cheng Kar Shun	–	1,977,500	7,889,250	9,866,750 *(Note 4)*	5.24%
Ms. Ip Mei Hing	–	7,889,250	1,977,500	9,866,750 *(Note 4)*	5.24%

Notes:

1. *Chow Tai Fook (Holding) Limited held 99.8% 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 2,698,101,424 shares held by Chow Tai Fook Nominee Limited.*

2. *Among 2,698,101,424 shares held by Chow Tai Fook Nominee Limited, 2,692,601,424 shares were underlying shares.*

3. *Ms. Ku Ming Mei, Rouisa, the spouse of Mr. Lo, was deemed to be interested in 634,280,520 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 7,889,250 shares held by Dragon and 1,977,500 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 2020.

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 2020	Granted during the period	Lapsed during the period	Exercised during the period	As at 30 September 2020
Mr. Lo	09-09-2015	2.510	09-09-2015 to 08-09-2020	N/A	1,700,000	–	(1,700,000)	–	–
	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	1,800,000	–	–	–	1,800,000
Ms. Yvette Ong	09-09-2015	2.510	09-09-2015 to 08-09-2020	N/A	500,000	–	(500,000)	–	–
	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	1,000,000	–	–	–	1,000,000
Mr. Lo, Rex Cze Kei	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	1,500,000	–	–	–	1,500,000
Mr. To Hin Tsun, Gerald	09-09-2015	2.510	09-09-2015 to 08-09-2020	N/A	300,000	–	(300,000)	–	–
	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	500,000	–	–	–	500,000
Mr. Tsui Hing Chuen, William JP	09-09-2015	2.510	09-09-2015 to 08-09-2020	N/A	300,000	–	(300,000)	–	–
	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	500,000	–	–	–	500,000
Mr. Lau Wai Piu	09-09-2015	2.510	09-09-2015 to 08-09-2020	N/A	300,000	–	(300,000)	–	–
	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	500,000	–	–	–	500,000
Mr. Lee Kee Wai, Frank	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	500,000	–	–	–	500,000
Employees in aggregate (including a director of certain subsidiaries)	09-09-2015	2.510	09-09-2015 to 08-09-2020	N/A	1,500,000	–	(1,500,000)	–	–
	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	7,700,000	–	–	–	7,700,000
TOTAL					18,600,000	–	(4,600,000)	–	14,000,000

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 By-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 2020 AGM. The Chairman of the Audit and Remuneration Committees of the Company took the chair of the 2020 AGM and answered questions raised by the shareholders. The AGM provides a channel for communication between the Board and the shareholders. Other than the AGM, the shareholders may communicate with the Company through the contact methods listed on the Company's website.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTION

The Company has adopted its own Code for Securities Transactions by Directors (the "**Code**"), which are on terms no less exacting than those set out in the Model Code in Appendix 10 to the Listing Rules. The Code is sent to each Director on his/her initial appointment and from time to time when 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 2020.

HUMAN RESOURCES

As at 30 September 2020, excluding site and construction workers directly employed by our contractors, the Group employed 644 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 2020.

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
Mr. Lo, Chris Cze Wai

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Mongolia Energy Corporation Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 23 to 58, which comprise the condensed consolidated statement of financial position at 30 September 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("**HKSRE 2410**") issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION (CONTINUED)

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the condensed consolidated financial statements which indicates that as at 30 September 2020, the Group had net liabilities of approximately HK$3,360.9 million and net current liabilities of approximately HK$1,434.2 million. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from a substantial shareholder who is also the Chairman and a director of the Company. If the finance were not available, the Group would be unable to meet its financial obligations as and when they fall due. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 September 2019 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 November 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2020

	Notes	Six months ended 30 September 2020 HK$'000 (unaudited)	2019 HK$'000 (unaudited)
Revenue	*3*	268,869	800,146
Cost of sales		(169,373)	(434,834)
Gross profit		99,496	365,312
Other income	*4*	38,177	4,966
Other gains and losses	*5*	(8,797)	(2,834)
Administrative expenses		(73,121)	(74,532)
Changes in fair value on derivative component of convertible notes	*18(a)*	(714,667)	81
Impairment loss on property, plant and equipment		(82,485)	(277,470)
Impairment loss on intangible assets		(9,142)	(29,432)
Impairment loss on right-of-use assets		(40)	(346)
Reversal of impairment loss on financial assets		56	11
Finance costs	*6*	(252,567)	(409,993)
Loss before taxation	*8*	(1,003,090)	(424,237)
Income tax expense	*7*	(4,603)	(62,829)
Loss for the period attributable to owners of the Company		(1,007,693)	(487,066)
Loss per share attributable to owners of the Company	*10*		(Restated)
– basic and diluted loss per share (HK$)		(5.36)	(2.59)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2020

	Six months ended 30 September	
	2020	**2019**
	HK$'000	**HK$'000**
	(unaudited)	**(unaudited)**
Loss for the period	**(1,007,693)**	(487,066)
Other comprehensive income (expense)		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translating foreign operations	774	(16,681)
Total comprehensive expense for the period attributable to owners of the Company	**(1,006,919)**	(503,747)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

	Notes	30 September 2020 HK$'000 (unaudited)	31 March 2020 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*11*	1,275,067	1,373,022
Right-of-use assets		6,976	9,839
Intangible assets	*11*	141,247	153,709
Exploration and evaluation assets	*12*	533	498
Interests in associates		–	–
Other asset		1,150	1,150
Deferred tax asset		6,018	3,499
		1,430,991	1,541,717
Current assets			
Inventories	*13*	231,274	241,365
Trade and bills receivables	*14*	205,436	120,365
Other receivables, prepayments and deposits	*15*	146,397	122,733
Prepaid taxation		–	4,396
Financial assets at fair value through profit or loss ("**FVTPL**")		42,293	51,597
Amount due from an associate		–	–
Cash and cash equivalents		51,744	61,782
		677,144	602,238
Current liabilities			
Trade payables	*16*	159,238	174,607
Other payables and accruals	*17*	147,511	138,307
Contract liabilities		16,618	5,027
Tax liabilities		3,848	–
Advances from a Director	*24(a)*	1,778,614	1,709,372
Lease liabilities		3,938	6,110
Deferred income		1,532	1,469
		2,111,299	2,034,892
Net current liabilities		(1,434,155)	(1,432,654)
Total assets less current liabilities		(3,164)	109,063

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

	Notes	30 September 2020 HK$'000 (unaudited)	31 March 2020 HK$'000 (audited)
Non-current liabilities			
Convertible notes	*18(a)*	3,038,303	2,168,168
Loan note	*18(b)*	286,288	258,725
Deferred income		5,529	6,036
Deferred tax liabilities		26,346	27,981
Lease liabilities		1,251	2,115
		3,357,717	2,463,025
Net liabilities		(3,360,881)	(2,353,962)
Financed by:			
Capital and reserves			
Share capital	*19*	3,763	3,763
Reserves		(3,364,644)	(2,357,725)
Capital deficiencies attributable to owners of the Company		(3,360,881)	(2,353,962)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2020

	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	Capital contribution reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
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)
At 1 April 2020 (audited)	3,763	–	–	29,105	(24,969)	21,904	334,220	(2,717,985)	(2,353,962)
Loss for the period	–	–	–	–	–	–	–	(1,007,693)	(1,007,693)
Other comprehensive income									
Exchange differences arising on translation	–	–	–	–	774	–	–	–	774
Total comprehensive income (expenses) for the period	–	–	–	–	774	–	–	(1,007,693)	(1,006,919)
Share option lapsed	–	–	–	(7,664)	–	–	–	7,664	–
At 30 September 2020 (unaudited)	3,763	–	–	21,441	(24,195)	21,904	334,220	(3,718,014)	(3,360,881)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2020

	Six months ended 30 September	
	2020 HK$'000 (unaudited)	2019 HK$'000 (unaudited)
Net cash (used in) from operating activities	(7,241)	221,629
Net cash from (used in) investing activities:		
Purchase of property, plant and equipment	(2,076)	(43,629)
Other investing cash flows	2,987	(2,293)
	911	(45,922)
Net cash used in financing activities:		
Advances from a Director	7,750	–
Repayment of advances from a Director	(7,828)	(136,344)
Repayment of lease liabilities	(3,832)	(1,879)
	(3,910)	(138,223)
Net (decrease) increase in cash and cash equivalents	(10,240)	37,484
Cash and cash equivalents at beginning of the period	61,782	65,399
Effect of foreign exchange rate changes	202	(599)
Cash and cash equivalents at end of the period	51,744	102,284

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

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.

While recognising the Group had net liabilities of approximately HK$3,360.9 million and net current liabilities of approximately HK$1,434.2 million, 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 flow projections cover a period of not less than 12 months from 30 September 2020 and include the 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 2020, advances from a Director of HK$1,778.6 million comprised principal amount and accrued interest of HK$963.1 million and HK$815.5 million respectively. The balance of the unutilised facilities of HK$936.9 million remains valid until 31 March 2022 and Mr. Lo does not intend to demand repayment of the loan until the Company has sufficient cash to make repayment. The Directors are of the opinion that the Group will be able to meet its financial obligations as and when they fall due and accordingly the condensed consolidated financial statements have been prepared on a going concern basis.

1A. SIGNIFICANT EVENTS IN THE CURRENT INTERIM PERIOD

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts on the global economy, business environment and directly and indirectly affect the operations of the Group. The Group had a temporary suspension of coal export from Mongolia to the People's Republic of China ("**the PRC**") since February 2020 due to the border restrictions in an effort to prevent the spread of the epidemic. The Group has resumed operation at normal capacity since August 2020. As such, the financial positions and performance of the Group were affected in different aspects, including reduction in revenue, production and profit from mining operation.

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 additional accounting policies resulting from application of 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 2020 are the same as those applied in the preparation of the Group's annual financial statements for the year ended 31 March 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 April 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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

Impacts and application of Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements, for the year ending 31 March 2021.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in mining, processing and sale of coal. Revenue represents income arising from the sale of coal to external customers located in PRC and Mongolia, and is recognised at a point in time when coals are delivered 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 goods 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 2020

	Coal mining HK$'000	Total HK$'000
Segment revenue	268,869	268,869
Segment loss	(7,008)	(7,008)
Unallocated expenses (*Note*)		(21,428)
Other income		1,824
Other gains and losses		(9,314)
Changes in fair value on derivative component of convertible notes		(714,667)
Finance costs		(252,497)
Loss before taxation		(1,003,090)

3. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and result (Continued)

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 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, office rental and legal and professional fees (2019: 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 2020 HK$'000	31 March 2020 HK$'000
Coal mining	2,026,739	2,064,076

4. OTHER INCOME

	Six months ended 30 September	
	2020	2019
	HK$'000	HK$'000
Government grant (*Note (a)*)	3,965	2,426
Interest income	157	235
Sundry income (*Note (b)*)	34,055	2,305
	38,177	4,966

Notes:

(a) *During the period ended 30 September 2020, the grant received represents COVID-19-related grants provided by governments in Hong Kong and Mongolia to retain employees who may otherwise be made redundant and to support businesses affected by COVID-19 respectively. The grants are unconditional and granted on a discretionary basis to the Group during the period.*

During the period ended 30 September 2019, a grant of HK$2,426,000 (equivalent to approximately RMB2,162,000) were received for the foreign trade development, construction of warehouse and stabilizing employment.

(b) *During the period ended 30 September 2020, a subsidiary of the Group entered into a settlement agreement with an ex-exploration contractor in respect of the prepayment to be refunded in RMB30,000,000. The ex-exploration contractor has settled HK$25,300,000 (equivalent to RMB22,500,000) in cash during the current period.*

5. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2020	2019
	HK$'000	HK$'000
Changes in fair value on financial assets at FVTPL	(9,304)	(2,538)
Loss on disposal of property, plant and equipment	(7)	–
Loss on written off of property, plant and equipment	–	(4)
Net exchange gain (loss)	514	(292)
	(8,797)	(2,834)

6. FINANCE COSTS

	Six months ended 30 September	
	2020 **HK$'000**	**2019** **HK$'000**
Interest on advances from a Director (*Note 24(a)*)	69,320	70,721
Interest on lease liabilities	216	291
Effective interest expense on convertible notes (*Note 18(a)*)	155,468	338,981
Effective interest expense on loan note (*Note 18(b)*)	27,563	–
	252,567	409,993

7. INCOME TAX EXPENSE

	Six months ended 30 September	
	2020 **HK$'000**	**2019** **HK$'000**
Current tax:		
Mongolian corporate income tax	7,975	7,193
PRC Enterprise Income Tax ("**EIT**")	–	3,967
Under provision in prior periods:		
PRC EIT	80	49
Deferred taxation	(3,452)	51,620
	4,603	62,829

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% on the estimated assessable profits (if any) for both periods. One of the Group's subsidiaries, 新疆蒙科能源科技有限公司, is entitled to enjoy a preferential income tax rate of 15%, and will continue to benefit from this preferential income tax policy until 31 December 2020 under the "Tax incentives of Western Development Policy".

7. INCOME TAX EXPENSE (Continued)

Mongolian corporate income tax was calculated at 10% to the first Mongolian Tugrik ("**MNT**") 6 billion (2019: 3 billion) of annual taxable income and 25% on the remaining annual taxable income for both periods.

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

8. LOSS BEFORE TAXATION

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

	Six months ended 30 September	
	2020 HK$'000	**2019 HK$'000**
Employee benefit expenses, including Directors' emoluments (net of reimbursement from a related party) *(Note 24(d))*	48,305	55,801
Less: employee benefit expenses capitalised in inventories	(9,930)	(19,916)
	38,375	35,885
Depreciation of property, plant and equipment	15,462	15,320
Depreciation of right-of-use assets	3,432	2,419
Amortisation of intangible assets	3,681	2,012

9. DIVIDENDS

No dividends was paid, declared or proposed by the Company during the reporting period (2019: 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	
	2020	**2019**
	HK$'000	**HK$'000**
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	**(1,007,693)**	(487,066)

	Six months ended 30 September	
	2020	**2019**
	'000	**'000**
Number of shares		(Restated)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share *(Note (a))*	188,126	188,126

Notes:

(a) *The number of shares for the purpose of calculating the basic and diluted loss per share for the six month ended 30 September 2020 and 2019 have been adjusted to reflect the Capital Reorganisation as defined and set out in Note 19.*

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

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

Property, Plant and Equipment

During the six months ended 30 September 2020, the Group spent approximately HK$63,000 (2019: HK$9,082,000), HK$44,000 (2019: HK$21,575,000), HK$30,000 (2019: Nil), HK$117,000 (2019: HK$531,000), HK$15,000 (2019: HK$80,000), HK$1,606,000 (2019: HK$1,595,000) and HK$201,000 (2019: HK$10,766,000) on mining structures, construction in progress, leasehold improvements, computer equipment, furniture, fixtures and office equipment, plant, machinery and other equipment and motor vehicles respectively.

Intangible Assets

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

There were no significant capital expenditures spent on intangible assets for either 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 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 estimated 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$91,667,000 (2019: HK$307,248,000) 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
At 1 April 2019	151	119	270
Addition	–	228	228
At 31 March 2020	151	347	498
Addition	–	35	35
At 30 September 2020	151	382	533

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 amounted approximately HK$151,000 was 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 2020.*

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 expired 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 2020, 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. Subsequent to the period ended 30 September 2020, the Group returned the iron ore licence to government.

(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 2020 HK$'000	31 March 2020 HK$'000
Coal	221,816	232,844
Materials and supplies	9,458	8,521
	231,274	241,365

14. TRADE AND BILLS RECEIVABLES

	30 September 2020 HK$'000	31 March 2020 HK$'000
Trade receivables	127,255	13,329
Bills receivables	75,792	97,135
Accrued income *(Note)*	3,014	10,563
	206,061	121,027
Less: allowance for credit losses	(625)	(662)
	205,436	120,365

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 2020 HK$'000	31 March 2020 HK$'000
0 to 30 days	155,370	35,916
31 to 60 days	23,405	318
61 to 90 days	17,733	39,181
Over 90 days	8,928	44,950
	205,436	120,365

15. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 September 2020 HK$'000	31 March 2020 HK$'000
Other receivables	19,075	6,835
Prepayments	9,717	7,737
Deposits	1,887	1,908
Refundable value added tax	115,660	106,193
Others	58	60
	146,397	122,733

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 2020 HK$'000	31 March 2020 HK$'000
0 to 30 days	41,324	43,437
31 to 60 days	42,186	29,968
61 to 90 days	2,196	21,414
Over 90 days	73,532	79,788
	159,238	174,607

17. OTHER PAYABLES AND ACCRUALS

	30 September 2020 HK$'000	31 March 2020 HK$'000
Other payables	44,861	44,162
Accrued staff costs	19,045	17,763
Balance payment for Khushuut road and iron ore exploration	74,958	74,958
Other tax payables	8,647	1,424
	147,511	138,307

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

18. CONVERTIBLE NOTES AND LOAN NOTE

(a) 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 2020 HK$'000	31 March 2020 HK$'000	30 September 2020 HK$'000	31 March 2020 HK$'000	30 September 2020 HK$'000	31 March 2020 HK$'000
At beginning of the period/year	1,493,058	3,546,316	675,110	81	2,168,168	3,546,397
Issuance of convertible notes	–	1,473,848	–	1,052,796	–	2,526,644
Modification gain on the GI and CTF Convertible Notes	–	(249,444)	–	–	–	(249,444)
Interest charge	155,468	644,190	–	–	155,468	644,190
Transaction costs on issuance of convertible notes	–	(859)	–	–	–	(859)
Changes in fair value on derivative component	–	–	714,667	(377,767)	714,667	(377,767)
Derecognition of the 3% ZV Convertible Note	–	(574,860)	–	–	–	(574,860)
Derecognition of the 3% CTF and 3% GI Convertible Notes	–	(3,346,133)	–	–	–	(3,346,133)
At end of the period/year	1,648,526	1,493,058	1,389,777	675,110	3,038,303	2,168,168

2020 Convertible Notes with maturity date 6 March 2025

In prior years, the Company issued HK$2,424,822,000 3% convertible note to Chow Tai Fook Nominee Limited ("**CTF**") (the "**3% CTF Convertible Note**"), HK$542,315,000 3% convertible note to Golden Infinity Co., Ltd. ("**Golden Infinity**") (the "**3% GI Convertible Note**") and HK$499,878,000 3% convertible note to another independent third party (the "**3% ZV Convertible Note**"). These convertible notes were matured on 21 November 2019.

18. CONVERTIBLE NOTES AND LOAN NOTE (Continued)

(a) Convertible notes (Continued)

2020 Convertible Notes with maturity date 6 March 2025 (Continued)

CTF and Golden Infinity Convertible Notes

On 21 November 2019, the Company entered into standstill agreements with CTF and Golden Infinity respectively to extend the time of repayment of all amounts outstanding under the 3% CTF Convertible Note and 3% GI Convertible Note from 21 November 2019 to 21 May 2020. The conversion options expired on 21 November 2019. A modification gain of HK$249,444,000 was recognised in profit or loss in relation to this non-substantial convertible notes modification during the year ended 31 March 2020.

On 28 November 2019, the Company entered into subscription agreements with CTF and Golden Infinity, which conditionally agreed to subscribe for the new 5-year 3% convertible notes subject to the fulfilment of certain conditions. The new convertible notes would have an aggregate principal amount equal to the outstanding principal amount plus accrued interest under the 3% GI Convertible Note and the 3% CTF Convertible Note as at the issue date of the new convertible notes.

Details of the subscriptions are set out in the announcement issued by the Company on 28 November 2019.

On 6 March 2020, the Company issued convertible notes with a principal of HK$2,809,671,052 and HK$628,387,371 to CTF and Golden Infinity respectively (the "**2020 Convertible Notes**"). The commitment by the Group to issue, and by the 2020 Convertible Notes holders to subscribe for, the 2020 Convertible Notes was accounted for as a derivative from 28 November 2019 to 6 March 2020 with a cumulative fair value gain of HK$797,546,000 recognised in profit or loss during the year ended 31 March 2020.

The standstill agreements with CTF and Golden Infinity expired on 6 March 2020. The 3% GI Convertible Note, the 3% CTF Convertible Note as well as the aforementioned derivative to issue the 2020 Convertible Notes were derecognised on the same date, resulting in a derecognition gain of HK$21,943,000 recognised in profit or loss. No cash flows resulted from this transaction other than the payment of transaction costs amounting to HK$859,000 during the year ended 31 March 2020.

The 2020 Convertible Notes with principal amount of HK$3,438,058,423 have a maturity period of five years from issue date to 6 March 2025. They can be converted into 1 ordinary share of the Company of HK$0.02 each for every HK$1.2 at the holders' option at any time since the issue date up to the date immediately prior to their maturity date. The outstanding principal amount would be redeemed at par value on the maturity date or at the issuer's option to redeem at par plus outstanding coupon payment at any time between the issue date and the maturity date. Interest of 3% per annum will be paid in arrears on the maturity date.

18. CONVERTIBLE NOTES AND LOAN NOTE (Continued)

(a) Convertible notes (Continued)

2020 Convertible Notes with maturity date 6 March 2025 (Continued)

CTF and Golden Infinity Convertible Notes (Continued)

The 2020 Convertible Notes contain two components, a debt component and a derivative component with a conversion option derivative of the holders and a prepayment option derivative of the issuer. The effective interest rate of the debt component is 21.82%. The conversion option derivative held by the holders is measured at fair value with changes in fair value recognised in profit or loss as the conversion options does not meet the fixed-for-fixed criteria. Furthermore, the Company may at any time before the maturity date by written notices to the holders, redeem the principal amount of 2020 Convertible Notes (in whole or in part) with accrued interest. The fair value of the prepayment option held by the Group was immaterial as at 6 March 2020, 31 March 2020 and 30 September 2020.

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

	30 September 2020	31 March 2020
Stock price	HK$0.89	HK$0.44
Exercise price	HK$1.2	HK$1.2
Volatility *(Note (i))*	79.15%	74.19%
Dividend yield	0%	0%
Option life *(Note (ii))*	4.43 years	4.93 years
Risk free rate	0.17%	0.57%

Notes:

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

(ii) The option life was based on the maturity date of the notes.

The fair value of the derivative component of 2020 Convertible Notes was determined with reference to a valuation report carried out by an Independent Valuer.

No conversion was made during both periods.

3% ZV Convertible Note

Details of 3% ZV Convertible Note are set out in Note 18(b).

18. CONVERTIBLE NOTES AND LOAN NOTE (Continued)

(a) Convertible notes (Continued)

2014 Convertible Notes with maturity date 21 November 2019

In prior years, the Company issued HK$200 million 5% convertible note to Golden Infinity (the "**5% GI Convertible Note**"), HK$200 million 5% convertible note to CTF (the "**5% CTF Convertible Note**"), HK$2 billion 3% convertible note to CTF (the "**3% CTF Convertible Note**") and HK$466.8 million 3.5% convertible notes to other parties (the "**3.5% OZ Convertible Note**").

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

On 21 November 2014, the Company issued convertible notes at HK$2,424,822,000, HK$542,315,000 and HK$499,878,000 to CTF, Golden Infinity and the holders of the 3.5% OZ Convertible Note respectively (the "**2014 Convertible Notes**"). The 5% GI Convertible Note, 5% CTF Convertible Note, 3% CTF Convertible Note and 3.5% OZ Convertible Note were derecognised on the same date.

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

18. CONVERTIBLE NOTES AND LOAN NOTE (Continued)

(a) Convertible notes (Continued)

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

The 2014 Convertible Notes contained two components, a debt component and a derivative component with a conversion option derivative of the holders and a callable option derivative of the issuer. The effective interest rate of the debt component is 19.96%. The derivative component with a conversion option derivative of the holders was measured at fair value with changes in fair value recognised in profit or loss as the conversion options does not meet the fixed-for-fixed criteria. Furthermore, the Company may at any time before the maturity date by written notices to the holders, redeem the principal amount of 2014 Convertible Notes (in whole or in part) with accrued interest. The fair value of the derivative component with a callable option derivative considered was immaterial as at 31 March 2019.

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

	31 March 2019
Stock price	HK$0.14
Exercise price	HK$0.87
Volatility *(Note (i))*	61.59%
Dividend yield	0%
Option life *(Note (ii))*	0.64 years
Risk free rate	1.42%

Notes:

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

(ii) 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 on the maturity date of the notes.

18. CONVERTIBLE NOTES AND LOAN NOTE (Continued)

(b) Loan Note

The 3% ZV Convertible Note matured on 21 November 2019. On 21 November 2019, Mr. Lo took up the full amount owing to the 3% ZV Convertible Note holder through Ruby Pioneer Limited ("**Ruby Pioneer**"). Ruby Pioneer was a wholly-owned company of Mr. Lo as at 21 November 2019. Immediately after the aforesaid taking up, the Company and Ruby Pioneer entered into a standstill agreement pursuant to which Ruby Pioneer agreed to extend the note for five years from 21 November 2019 to 21 November 2024 at coupon rate of 3% per annum. This transaction is accounted for as an extinguishment of the 3% ZV Convertible Note and the recognition of the new loan note to Ruby Pioneer. The new loan note is unsecured and has an effective interest rate of 22.37%. A derecognition gain of HK$334,220,000 is recognised directly in equity as a deemed capital contribution from Mr. Lo as at 31 March 2020. No cash flows resulted from this transaction for the year ended 31 March 2020.

19. SHARE CAPITAL

Authorised and issued share capital

	30 September 2020 HK$'000	31 March 2020 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.02 each	**300,000**	300,000

	Number of ordinary shares of HK$0.02 each	Amount HK$'000
Issued and fully paid:		
At 1 April 2019	1,881,258,499	37,625
Share consolidation and Capital Reduction *(Notes (a) and (b))*	(1,693,132,650)	(33,862)
At 1 April 2020 and 30 September 2020	**188,125,849**	**3,763**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

19. SHARE CAPITAL (Continued)

Authorised and issued share capital (Continued)

Notes:

*The Company completed the capital reorganisation (the "**Capital Reorganisation**") on 6 March 2020. It was approved by the shareholders at the special general meeting held on 2 March 2020 and details are as follows:*

(a) *The Company's share of every ten issued existing shares of par value of HK$0.02 each were consolidated into one consolidated share of par value of HK$0.2 each (the "**Consolidated Share**"), 1,693,133,000 shares were reduced;*

(b) *The par value of each issued Consolidated Share was reduced from HK$0.2 to HK$0.02 by cancelling the paid-up capital to the extent of HK$0.18 on each issued Consolidated Share ("**Capital Reduction**") and the credit arising from the Capital Reduction amounted to HK$33,862,000 was transferred to contributed surplus account of the Company;*

(c) *The share premium of the Company amounting to HK$51,463,000 was cancelled ("**Share Premium Reduction**") and was transferred to contributed surplus account of the Company; and*

(d) *The application of the contributed surplus account of the Company to set off the accumulated losses of the Company amounted to HK$3,537,218,000 as permitted by the Companies Act 1981 of Bermuda (as amended) and the By-Laws.*

20. SHARE-BASED PAYMENT

Equity-settled share option scheme

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

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

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

	30 September 2020		31 March 2020	
	Weighted average exercise price per share HK$	Number of share options	Weighted average exercise price per share HK$	Number of share options
Exercisable at beginning of the period/year	2.322	18,600,000	0.232	190,000,000
Lapsed	(2.510)	(4,600,000)	0.232	(4,000,000)
Adjusted for Capital Reorganisation	–	–	2.090	(167,400,000)
Exercisable at end of the period/year	2.260	14,000,000	2.322	18,600,000

No share options were exercised for both periods.

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

20. SHARE-BASED PAYMENT (Continued)

Equity-settled share option scheme (Continued)

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

Date of grant	Exercise price before Capital Reorganisation HK$	Exercise price after Capital Reorganisation HK$	Exercisable period	Number of shares subject to options 30 September 2020	31 March 2020
09-09-2015	0.251	2.510	09-09-2015 to 08-09-2020	–	4,600,000
01-09-2017	0.226	2.260	01-09-2017 to 31-08-2022	14,000,000	14,000,000
				14,000,000	18,600,000

Note:

The exercise price and number of shares subject to share options were adjusted for the Capital Reorganisation of the Company and became effective at 6 March 2020.

21. CAPITAL COMMITMENTS

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

	30 September 2020 HK$'000	31 March 2020 HK$'000
Construction of new stockpile area	891	916
Other exploration related commitments	3,992	1,236
Purchase of property, plant and equipment	1,196	1,147
Road improvement and drilling equipment transport	11,968	11,968
Wash plant	20,492	19,650
Others	591	601
	39,130	35,518

22. CONTINGENT LIABILITIES

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

The former mining contractor issued two 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 High Court to amend its statements of claim under the two writs by amending, among others, (i) the currency of the claims from MNT 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 statement of claims, total claims under two writs were at approximately HK$198.9 million. The two actions were subsequently consolidated and the amount claimed has been reduced to approximately HK$105.6 million and approximately HK$50.0 million was provided for in the consolidated financial statements as at 30 September 2020 (2019: 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.

23. 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.

23. 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)

- 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 2020	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input	Relationship of unobservable inputs to fair value
Listed equity security classified as financial asset at FVTPL	HK$42,293,000 (31 March 2020: HK$51,597,000)	Level 1	– Quoted bid prices in an active market	N/A	N/A
Embedded derivative component of convertible notes	HK$1,389,777,000 (31 March 2020: HK$675,110,000)	Level 3	– Binomial Valuation Model – The key inputs are stock price, exercise price, option life, risk free rate, volatility and dividend yield	Volatility is 79.15% (31 March 2020: 74.19%)	A slight increase in the volatility would result in significant higher fair value measurement, and vice versa (*Note*)

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$96,020,000 (2019: loss for the period would increase by HK$Nil) or decrease by HK$135,757,000 (2019: loss for the period would decrease by HK$Nil), as a result of changes in fair value of the derivative component of the convertible notes.

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

Reconciliation of Level 3 fair value measurements of financial liabilities

	Embedded derivative component of convertible notes HK$'000
At 1 April 2020	675,110
Changes in fair value recognised in profit or loss	714,667
At 30 September 2020	1,389,777

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.

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.

24. 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 2020 HK$'000	31 March 2020 HK$'000
Balance of advances *(Note)*	1,778,614	1,709,372

	Six months ended 30 September	
	2020 HK$'000	2019 HK$'000
Effective interest charge for the period *(Note 6)*	69,320	70,721

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% per annum for both periods.

24. RELATED PARTY TRANSACTIONS (Continued)

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

	30 September 2020 HK$'000	31 March 2020 HK$'000
Convertible note	559,880	396,015

	Six months ended 30 September	
	2020 HK$'000	2019 HK$'000
Coupon interest charge on convertible note for the period *(Note (ii))*	9,407	8,135

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 18(a).

(ii) Amount represents nominal interest charge on convertible note. The effective interest expense on convertible note for the period is approximately HK$28,400,000 (2019: HK$53,024,000).

24. RELATED PARTY TRANSACTIONS (Continued)

(c) Loan note by a related party – Ruby Pioneer

	30 September 2020 HK$'000	31 March 2020 HK$'000
Loan note	286,288	258,725

	Six months ended 30 September	
	2020 HK$'000	2019 HK$'000
Coupon interest charge on loan note for the period *(Note (ii))*	8,647	–

Notes:

(i) Mr. Lo and Mr. Lo, Rex Cze Kei are the directors of Ruby Pioneer. Details of the loan note by Ruby Pioneer are set out in Note 18(b).

(ii) Amount represents nominal interest charge on loan note. The effective interest expense on loan note for the period is approximately HK$27,563,000 (2019: HK$Nil).

24. RELATED PARTY TRANSACTIONS (Continued)

(d) Transactions with related parties

	Six months ended 30 September	
	2020	**2019**
	HK$'000	**HK$'000**
Interest on lease liabilities *(Note (i))*	138	225
Reimbursement of sharing of administrative services from a related party *(Note (i) & (ii))*	3,250	3,314

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 24 June 2020 and extended the agreement for a period of 1 year.

(e) Balance with related parties

	30 September 2020	**31 March 2020**
	HK$'000	**HK$'000**
Rental deposits payable to related parties *(Note (i))*	441	441
Lease liabilities *(Note (i))*	2,531	4,675

Note:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

24. RELATED PARTY TRANSACTIONS (Continued)

(f) Key management compensation

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

	Six months ended 30 September	
	2020	**2019**
	HK$'000	**HK$'000**
Basic salaries, other allowances and benefits in kind	6,539	6,284
Contributions to Mandatory Provident Fund Scheme	36	27
	6,575	6,311

Note:

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