MEC
MONGOLIA ENERGY CORPORATION
蒙古能源有限公司

Incorporated in Bermuda with limited liability
Stock Code: 276

INTERIM REPORT 2022

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**"), I hereby present the interim results of Mongolia Energy Corporation Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") for the six months ended 30 September 2022 (the "**Financial Period**") as follows:

OVERVIEW

The Company is an investment holding company. The Group's principal business is coal mining and exploration which is operated by our indirect wholly-owned subsidiary in Mongolia, MoEnCo LLC ("**MoEnCo**"). Our principal project is the Khushuut Coking Coal Project in Western Mongolia. We sell coking coal and thermal coal to our customers in the People's Republic of China ("**PRC**" or "**China**") and Mongolia. The Khushuut Coal Mine is located approximately 1,350 km west of Ulaanbaatar in the Khovd Province of Western Mongolia. It is about 311 km from the Xinjiang Takeshiken border, connecting by the Khushuut Road we built.

During the Financial Period, approximately 1,894,300 tonnes (2021: 954,600 tonnes) of Run-of Mine ("**ROM**") coal were produced and approximately 968,800 tonnes (2021: 674,000 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 a new record high of HK$1,866.2 million (2021: HK$941.0 million). The significant increase of revenue was principally due to our comparatively weak performance in prior corresponding period due to the outbreak of the COVID-19 in both Mongolia and China, border closures of both countries took place frequently which impacted our coal export efficiency. The increase in the sales of clean coking coal under the Financial Period was principally due to the improvement of the border crossing policies of China and Mongolia, our effort to ramp up the coking coal production and to push our sales to the best of our effort during the Financial Period. During the Financial Period, the Group sold approximately 826,000 tonnes (2021: 564,200 tonnes) of clean coking coal and approximately 111,900 tonnes (2021: 85,500 tonnes) of thermal coal and approximately 30,900 tonnes (2021: 24,300 tonnes) of raw coal. The average selling prices of clean coking coal, thermal coal and raw coal net of sales tax were approximately HK$2,224.3 (2021: HK$1,637.0), HK$64.7 (2021: HK$58.7) and HK$546.8 (2021: HK$454.0) 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$1,074.0 million (2021: HK$511.0 million). The overall increase was mainly due to the increase in sales volume as well as the inflationary pressure on production costs in particular on fuel and transportation costs. Besides, the new royalty calculation formula adopted by the Government of Mongolia since 1 July 2021 also increased the royalty charged in the Financial Period. The cost of sales was divided into cash costs of HK$1,032.2 million (2021: HK$489.0 million) and non-cash costs of HK$41.8 million (2021: HK$22.0 million).

Gross Profit

Gross profit ratio for the Financial Period was approximately 42.5% (2021: 45.7%). The impact from the increase in cost of sales outpaced the beneficial effect from the increase in the average selling price caused the drop in gross profit margin.

Changes in Fair Value on Derivative Component of Convertible Notes

The convertible notes issued by the Company in 2020 (the "**2020 Convertible Notes**") contain 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$418.6 million was recognized in the Financial Period (2021 (restated): loss of HK$210.8 million). The major inputs into the binomial valuation model to work out the valuation of the conversion option derivative for the last financial year had been reassessed and amended thereby leading to a prior year adjustment. Accordingly, a restatement of the comparative figure in 2021 was made.

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; and 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 2022 and 31 March 2022 are set out below:

	Notes	30 September 2022	31 March 2022
Discount rate	(a)	27.56%	27.61%
Average current coking coal price per tonne	(b)	US$214	US$318
Inflation rate	(c)	2.00%	2.00%
Predicted average annual growth rate of the coking coal price for the forthcoming four-year period since period/year ended	(d)	-5.08%	-13.6%

Notes:

(a) *The discount rate is a pre-tax discount rate and 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 computation of 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 2022. 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 signed by 30 September 2022;*

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

(d) *The average annual growth rate was updated based on the management assessment and latest publicly available market data as at 30 September 2022. For the remaining year of the discounted cash flow model, the growth rate was the same as the inflation rate.*

In pursuant to the recoverable amount assessment, an impairment amounted to HK$548.6 million was made in the Financial Period (30 September 2021 (restated): reversal of impairment loss of HK$221.2 million).

Finance Costs

The major components in 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 14.26% per annum (2021: restated from 21.82% to 14.26%). The interest charge on advances from a Director was calculated at the Hong Kong prime rate plus 3% per annum, which was same as previous financial periods. The interest of the loan note was charged at an effective interest rate of 22.37% per annum (2021: 22.37%).

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.

The global crude steel production was 1,405.2 million tonnes for the first nine months in 2022, down 4.3% year on year 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 780.8 million tonnes and accounting for 55.6% of the world's crude steel production, down 3.4% compared with the same period in 2021. According to the China General Administration of Customs ("**GAC**"), for the first nine months of 2022, the steel products export volume of China was 51.2 million tonnes, down 3.4% year on year. However, the value of the steel export of China for the same period had increased by 27.8% to US$75.4 billion.

According to the recent report from the International Energy Agency ("**IEA**"), the world's consumption of coal is set to rise slightly in 2022 under the support of the soaring natural gas prices despite the slowing economic growth under COVID-19 prevention policy in China. The IEA report estimates that the coal demand of China would have declined by 3% in the first half of 2022 under its Zero-Covid measures in some of its major economic cities but coal consumption is expected to increase in the second half of the year, bringing the coal consumption for the full year back to the same level as last year.

In respect of the coal industry of China, the income of the coal mining and washing sectors of industrial enterprises above the designated size recorded a rise of 38% in the first nine months of 2022 and a surge in profit of 88.8% compared with the same period last year. During this period, China's total raw coal production was 3.32 billion tonnes, up 11.2% year on year.

Under the international sanctions, instead of exporting their coal to Europe, Russian coal suppliers shifted their targets and increased the supplies to Asia, including China, India and other Asia-Pacific countries. On the other hand, under the policy of securing energy supplies for economic safety and security, China strives to scale up coal imports to accumulate stocks for ensuring power supply, so as to prevent power supply restrictions similar to last year which negatively affected the manufacturing industry, services sector and households. Russia exported 41.3 million tonnes of coal to China in the first eight months of this year, an increase of 4% year on year, making it to become one of the major coal suppliers to China. Despite the policy, based on the data of the GAC, China imported a total of 200.9 million tonnes of coal in the first nine months this year, down 12.7% year on year. This was due to a government-imposed price cap on domestic thermal coal encouraged utilities to source supplies from Chinese mines.

In respect of coking coal, the momentum of demand continues. The supply of coking coal remained tight domestically as China steps up efforts to contain outbreaks of COVID-19 including the Shanxi province, the major coking coal domestic production base. According to the data from the GAC, the import volume of coking coal into China for the first nine months of 2022 was 45.4 million tonnes, an increase of 29.5% year on year. Mongolia, Russia, Canada, US and Australia are among the top coking coal suppliers to China. The import of coking coal from Russia was increased by 81% year on year to 12.4 million tonnes for the first eight months of this year and ranked as the second largest coking coal supplier next to Mongolia. Since May this year, the import of coking coal from Mongolia and Russia has accounted for around 80% of China's coking coal import.

Mongolia has always been the one of the main coal suppliers to China, and over 90% of the Mongolia coal export goes to China. However, Mongolia's coal export was badly hit by COVID-19 in 2021 and it has pledged to increase its coal export this year to boost its economy. During the State Councillor and Foreign Minister Wang Yi's visit this August, China and Mongolia had reached board consensus, among others, including strengthening corporation at the border, promoting the opening of ports so as to keep industrial and supply chain stabled and unimpeded.

According to the National Statistical Office of Mongolia, in the first nine months of 2022, Mongolia produced approximately 20 million tonnes of coal, a decline of 12% compared with the same period last year. Mongolia has planned to export 28 million tonnes annually. During the first nine months of 2022, its coal export amounted to 19.04 million tonnes, a surge of 53.3% year on year. According to the data of the GAC, it supplied 13.13 million tonnes of coking coal to China from January to August this year, a rise of 32.4% year on year.

BUSINESS REVIEW

Coal Sales

We recorded a revenue of HK$1,866.2 million from the sales of coking coal and thermal coal to our customers in China and Mongolia in the Financial Period, an increase of 98.3% compared with the previous financial period.

Coal Production

During the Financial Period, approximately 8,814,200 bank cubic meters ("**BCM**") of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2021: 5,448,900 BCM). Production of coking coal (before processing) was approximately 1,429,000 tonnes (2021: 882,200 tonnes).

Coal Processing

During the Financial Period, approximately 706,000 tonnes of ROM coal (2021: 957,000 tonnes) were processed by the dry coal processing plant, producing approximately 597,400 tonnes of raw coking coal (2021: 763,600 tonnes). The average recovery rate was 84.6%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customers. In Xinjiang, approximately 1,288,800 tonnes of raw coking coal (2021: 767,600 tonnes) were processed by the washing plant, producing approximately 900,100 tonnes of clean coking coal (2021: 582,800 tonnes). The average recovery rate was 69.8%.

Coal Shipping

Apart from the field work contractors, we hired external coal trucking companies with heavy-duty trucks to provide coal transportation services for our coal export. During the Financial Period, approximately 1,347,790 tonnes of raw coking coal were shipped from Mongolia to Xinjiang.

Customers and Sales

The customers of our coking coal are mainly in Xinjiang. During the Financial Period, our customer base had been extended to other areas within China. 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. Sales contract clearing is based on the actual clean coking coal delivered after washing, and on this basis, we sold 454,200 tonnes of clean coking coal to this customer during the Financial Period. It accounted for approximately 55.6% of our revenue in the Financial Period.

In respect of our other customers, we negotiated the sales and delivery orders shortly before delivery under the then prevailing market price and our quantity of coal available. Apart from our major customer, we had ten customers in Xinjiang and eight customers in other areas of China for our coking coal during the Financial Period.

Licences

During the Financial Period, we had ten mineral licences including nine mining licences, of which eight are for our Khushuut operations and one in other area not within Khushuut; and one exploration licence. 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

Over the reporting period, the consequences of the COVID-19 pandemic and Russia – Ukraine conflict have been the main challenges to the Mongolia's economy. In late 2021, the Parliament of Mongolia passed the New Recovery Policy, a 10-year development plan to increase national productivity by advancing energy production, industrialization, transport logistics, urban and rural infrastructure, and green development. Within the framework of the New Recovery policy, the 'Renovation of Border Points' program is being implemented which is focusing on improving the capacity of main border points and its efficiency to increase coal exports to the PRC. Besides renovating the main ports, the Mongolian government decided to operate additional border port administrations in Selenge, Dornod, Dornogobi and Umnugobi provinces. These border port administrations will fulfill functions such as working to increase the export and import of mineral resources, oil and goods as well as trade turnover; and providing infection control.

Following the heavy inflation, the Mongolian government prompted to approve the Law on Preventing and Mitigating Negative Effects of Increase of Prices on Some Staple Food Products and their Shortages. These and other recent enactments aim to develop an optimal financing scheme, are necessary to create sufficient reserves for the population's product needs in 2023 and to remove import tariffs on some food commodities that are not produced in Mongolia. As part of inflation relief, a 50% refund on social insurance payments to low-earning employees will be implemented until the end of this year. A special dollar exchange rate offer for fuel importers are purported to prevent increase of gasoline prices. In addition, for the domestic agricultural sector, crop and vegetable growers are backed with tax relief and subsidized electricity tariffs.

Support to businesses is also sought through removing unpredictable regulatory burdens at all levels. In June 2022, the Parliament streamlined the procedures for, and reduced the required number of permits and licences by enacting the revised version of the Law on Licensing in June 2022. In September 2022, a decision was made to dissolve the General Agency for Specialized Inspection after 20 years of its establishment, and its functions along with its 2200 inspectors had been reassigned to the relevant ministries.

In April 2022, the Austerity Law has been approved prompting to redefine organizational structures and operations of state-owned enterprises, digitization in most of the public services leading to reduction of the positions of civil servants among other measures. The Government has put much effort to promote digital services and create digital platforms for the delivery of public service with aims to increase the efficiency of its business registration processes. In this context, the Department of Communications and Information Technology was reorganized and upgraded to become the Ministry of Digital Development and Communications and is tasked to coordinate and implement the country's e-development policy and cyber-security enforcement. A revised edition of the Law on Electronic Signatures was also adopted in December 2021, coming into force in May 2022.

The government of Mongolia continues to address the challenges of effectiveness of the judicial system as well. Through implementing statutory amendments and reforms of court, the government aims to improve the transparency, effectiveness and independence of the judiciary system.

In the reporting period, several high-level meetings between the PRC and Mongolia took place. The PRC's State Councilor and Foreign Minister Wang Yi paid an official visit to Mongolia in August 2022. At the end of this visit, the foreign ministers of two countries jointly met the press and reaffirmed a mutual will to promote the in-depth synergy between China's Belt and Road Initiative and Mongolia's Steppe Road Program, China's Global Development Initiative and Mongolia's New Recovery Policy, and China's "two-step" development strategy and Mongolia's long-term development vision, so as to create three major engines for further development of bilateral relations. The two sides agreed to strengthen cooperation at borders, promoting opening of ports and connection of railways and highways to the largest possible extent aiming to keep industrial and supply chains stable and unimpeded. In September 2022, Li Zhanshu, Chairman of the Standing Committee of the National People's Congress of the PRC, visited the President of Mongolia U.Khurelsukh. At the meeting, both sides expressed satisfaction with successful development of relations and cooperation between the two countries in the fields of trade, economy, investment, infrastructure and transport logistics. China, Russia and Mongolia high-level meeting were held during the Samarkand Summit of Shanghai Cooperation Organization held in Uzbekistan in September 2022. The meeting confirmed the interests of these countries in the comprehensive strengthening of relations which are "developing dynamically, fruitfully and on a mutually beneficial basis", and that the agreements adopted in the trilateral Russia-Mongolia-China format (the roadmap for cooperation between the three states approved in 2015 and the program approved in 2016 to create an economic corridor Russia-Mongolia-China) are "being implemented in full extend".

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

On 16 September 2022, the Company entered into the Settlement Agreement with Thiess at US$5.75 million in full and final settlement of the disputes between the parties.

Subsequently, the Company made the settlement payment of US$5.75 million to Thiess in accordance with the Settlement Agreement. The Consent Order of discontinuing the proceedings was granted by the Court on 30 September 2022. The case is formally settled and closed.

FINANCIAL REVIEW

Liquidity and Financial Resources

In preparing the 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$3,488.9 million and net current liabilities of approximately HK$751.6 million as at 30 September 2022, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future given that: (1) Mr. Lo, a substantial shareholder 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$931.6 million as at 30 September 2022 remains valid until 29 March 2024; 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 2022 were the convertible notes, loan note, secured bank borrowing and advances from Mr. Lo in aggregate of HK$6,041.0 million (31 March 2022: HK$5,663.4 million). The advances from Mr. Lo which are unsecured and classified as current liabilities while the convertible notes and loan note are classified as non-current liabilities.

As at 30 September 2022, the cash and bank balances of the Group were HK$31.7 million (31 March 2022: HK$63.9 million) and the liquidity ratio was 0.69 (31 March 2022: 0.52).

From time to time, MoEnCo will receive letter of credit (the "**LC**") from one of its Xinjiang customers. The recent prolonged quarantine period in Xinjiang due to COVID-19 pandemic has causing unexpected delay upon presentation of documents to the LC issuing bank in Xinjiang for settlement. This affects our cashflow management. Under normal practice, our advising bank will send the original documents stipulated in the LC by courier to the issuing bank. The quarantine measures implemented by Xinjiang government causing serious disruption in courier service. The Group is now liaising with its Xinjiang customer, the issuing bank and the advising bank to work out a feasible solution to overcome the presentation of documents under LC issue.

Property, Plant and Equipment

The decrease in the carrying values of the property, plant and equipment was due to the impairment loss amounting to HK$493.7 million (2021 (restated): reversal of impairment loss of HK$194.8 million). During the Financial Period, the Group had incurred capital expenditures of approximately HK$89.3 million (2021: HK$48.4 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 2022, the majority of the trade receivables were within our credit period. For the bills receivables, they were non-interest bearing bank acceptance bills with settlement being guaranteed by the licensed banks in the PRC.

Other Receivables, Prepayments and Deposits

It mainly comprised prepaid value added tax of HK$191.9 million (31 March 2022: HK$169.0 million) to be refunded by the Government of Mongolia or offset against future taxes and royalties payable to the Government of Mongolia.

Financial Assets at Fair Value Through Profit or Loss

As at 30 September 2022, the fair value of the financial assets at fair value through profit or loss was HK$39.8 million (31 March 2022: HK$50.8 million), which was approximately 1.1% (31 March 2022: 1.4%) 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 5.58% (31 March 2022: 5.58%) of the total issued share capital of Jade Bird. During the Financial Period, the Group did not receive any dividend from Jade Bird.

Other Payables and Accruals

The major components were balance payments of capital expenditures due to construction companies.

Charge on Group's Assets

There was no charge on the Group's assets as at 30 September 2022 (31 March 2022: Secured bank borrowings with outstanding balances of HK$66.6 million was secured by equivalent carrying amount of coal inventory located at Mongolia as collateral).

Gearing Ratio

As at 30 September 2022, the gearing ratio of the Group was 1.7 (31 March 2022: 1.6) 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

No material contingent liabilities as at 30 September 2022. As at 31 March 2022, the Group's material contingent liabilities were all related to the legal claims made by a former mining contractor in 2013. Subsequent to the financial year ended 31 March 2022, on 16 September 2022, the Company entered into a settlement agreement with the former mining contractor in which both parties agreed a final settlement amount of US$5,750,000 (equivalent to approximately HK$44.9 million) in full and final settlement of the disputes between the parties, and the payment had been made by the Group before 30 September 2022.

OUTLOOK

Since the outbreak of the Russia-Ukraine war early this year, the global economy has lost its momentum. The conflict directly impacts the prices of global commodities such as food and oil which is continuing to soar. Europe has been suffering from energy shortage, aggravating inflationary pressure and the costs of living. Inflation is higher than seen in decades. The geo-political tensions between the western and eastern world continue to intensify. On the other hand, China is still maintaining the Zero-Covid policy to contain the disease have impacted manufacturing and shipping operations, and hence, the supply chains globally. These incidents slow the global economic growth and threaten to a recession. Twilight has yet to be seen.

According to the Organisation for Economic Co-operation and Development ("**OECD**"), it projects global economic growth at a modest 3% this year before slowing further to just 2.2% in 2023. The International Monetary Fund ("**IMF**") predicts the global economy to slow from 6.0% in 2021 to 3.2% in 2022 and 2.7% in 2023.

According to the latest release of China's gross domestic product ("**GDP**") for the third quarter of 2022, the GDP grew by 3.9% in the third quarter, better than the market expectation of 3.4%. The faster-than-expected third quarter economic performance for China was mainly driven by the faster rise in industrial manufacturing and mining. However, due to the surge in coal price and an electricity shortage, many factories were forced to stop production. According to the data from the National Bureau of Statistics of China, the purchasing managers' index (PMI) for China's manufacturing sector stayed at 50.1% in September 2022, up from 49.4% in August, indicating recovery in the manufacturing sector. The country's economic growth has been targeted to reach 5.5% for 2022. However, as it is difficult to see any strong recovery given weakening global demand under the complicated international atmosphere, the economy of China is likely to come under downward pressures in the fourth quarter. The GDP growth of China this year is probably estimated to be around 2.8% according to the World Bank's recent prediction. The OECD projects China will grow 3.2% this year and 4.7% in 2023.

The World Steel Association forecasts that the steel demand of the world will drop by 2.3% this year, to 1,796.7 million tonnes, while in 2023, the growth will be 1.0% reaching 1,814.7 million tonnes. However, the forecast is subject to variety of uncertainties including the continuation of the war in Ukraine, inflation, China's economic policies and the energy supply issues in Europe. For the first nine months this year, China steel output demonstrated a decreasing trend. The decrease in crude steel output was mainly due to the reduction of production by electric furnace steel enterprises and the increase of iron-to-steel ratio by long-process enterprises. As the profits were relatively poor, steel mills were more motivated to stop furnaces and undergo overhaul. The steel demand in China is likely to fall by 4% in 2022. Steel demand of China in 2023 is expected to remain stable as a result of its infrastructure projects and recovery of the real estate market.

China is by far Mongolia's largest trading partner. However, Mongolia's economy shrank in the first half of the year mainly due to the fall in exports amid Chinese border closures and the Beijing's zero-tolerance COVID-19 policy. The mining sector is Mongolia's leading export sector, and it accounts for almost 90% of its total exports. Mongolia has pledged to increase its coal export this year to boost its economy. It is anticipated that growth should accelerate slightly in 2022, as the fading impact of the pandemic supports consumption and tourism. However, uncertainties continue to cast due to China's Zero-Covid policy and the Russia-Ukraine war. According to the Asian Development Bank, Mongolia's GDP is expected to grow 1.7% in 2022 and 4.9% in 2023.

Despite the impacts of COVID-19 in China and Mongolia, we have still managed to achieve a satisfactory performance during the Financial Period. We sold 968,800 tonnes of coal to our customers during this period, an increase of 43.7% compared with the results of the prior corresponding period. However, the global conditions have casted a gloomy outlook for the economy next year. The recent escalation of COVID-19 in Xinjiang has prompted the Xinjiang government to implement stringent restrictions to contain the spread of the disease, which may affect our coking coal export to China and the subsequent logistics flows. The actual clean coking coal selling price under our contracts denominated in RMB at the end of the Financial Period had fallen around 25% compared with the beginning of the Financial Period. In addition, the coming winter season will also slow our export under difficult road conditions. As the macro circumstances are not under our control, our performance in the second half of the financial year would be full of challenge, and may not be as good as the Financial Period. Nevertheless, we will continue to do our best in every aspect in the coming year.

APPRECIATION

In view of the above-mentioned internal and external factors, we believe the outlook is challenging for the year ahead. 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 2022

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the Financial Period (2021: Nil).

DIRECTORS' INTERESTS

As at 30 September 2022, 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	–	–	1,800,000	–	1,827,250	0.97%
Mr. Lo, Rex Cze Kei	–	–	–	1,500,000	–	1,500,000	0.80%
Mr. Lo, Chris Cze Wai	–	–	–	1,500,000	–	1,500,000	0.80%
Mr. To Hin Tsun, Gerald	135,000	–	–	500,000	–	635,000	0.34%
Mr. Tang Chi Kei	2,300	–	–	500,000	–	502,300	0.27%
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 2022, 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 2022, 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		336.13%
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 2022.

SHARE OPTION SCHEME

The Share Option Scheme was valid and effective for a term of ten years commencing from 30 August 2012. The Company granted certain options to eligible participants to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein. The Share Option Scheme was expired on 29 August 2022 but the share options already granted are still exercisable pursuant to their term of grant.

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 2022	Granted during the period	Lapsed during the period	Exercised during the period	As at 30 September 2022
Mr. Lo	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	1,800,000	–	(1,800,000)	–	–
	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	1,800,000	–	–	–	1,800,000
Ms. Yvette Ong	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	1,000,000	–	(1,000,000)	–	–
	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	1,800,000	–	–	–	1,800,000
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)	–	–
	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	1,500,000	–	–	–	1,500,000
Mr. Lo, Chris Cze Wai	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	1,500,000	–	–	–	1,500,000
Mr. To Hin Tsum, Gerald	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	500,000	–	(500,000)	–	–
	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000	–	–	–	500,000
Mr. Tang Chi Kei	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	500,000	–	(500,000)	–	–
	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000	–	–	–	500,000
Mr. Tsui Hing Chuen, William $_{JP}$	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	500,000	–	(500,000)	–	–
	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000	–	–	–	500,000
Mr. Lau Wai Piu	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	500,000	–	(500,000)	–	–
	18-01-2021	1.310	18-01-2021 to 17-01-2026	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)	–	–
	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000	–	–	–	500,000
Employees in aggregate (including a director of certain subsidiaries)	01-09-2017	2.260	01-09-2017 to 31-08-2022	N/A	7,100,000	–	(7,100,000)	–	–
	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	7,200,000	–	–	–	7,200,000
TOTAL					30,200,000	–	(13,900,000)	–	16,300,000

PURCHASE, SALE OR REDEMPTION OF 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:

Code provisions B.3.1 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 set up a nomination committee in pursuant to B.3.1 of the CG Code on 30 December 2021. Before that, the Board considered 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 can further ensure a right candidate to be selected.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTION

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

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

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

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

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

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

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

Having made specific enquiry by the Company, all the Directors confirmed that they had complied with the required standards as set out in the Model Code and the Code regarding directors' securities transactions during the Financial Period. Besides, no incident of non-compliance by the relevant employees was noted by the Company for the six months ended 30 September 2022.

HUMAN RESOURCES

As at 30 September 2022, excluding site and construction workers directly employed by our contractors, the Group employed 819 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 2022.

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 Directors

Mr. To Hin Tsun, Gerald
Mr. Tang Chi Kei

Independent Non-executive Directors

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2022

	Notes	Six months ended 30 September 2022 HK$'000 (unaudited)	2021 HK$'000 (unaudited and restated)
Revenue	4	1,866,241	941,003
Cost of sales		(1,073,965)	(511,021)
Gross profit		792,276	429,982
Other income	5	9,848	3,693
Other gains and losses	6	(16,748)	(10,482)
Administrative expenses		(88,803)	(70,887)
Changes in fair value on derivative component of convertible notes	19(a)	(418,619)	(210,809)
(Impairment losses) reversal of impairment losses on property, plant and equipment		(493,691)	194,844
(Impairment losses) reversal of impairment losses on intangible assets		(54,410)	26,148
(Impairment losses) reversal of impairment losses on right-of-use assets		(496)	221
Impairment losses on financial assets		(542)	(535)
Finance costs	7	(293,491)	(265,568)
(Loss) profit before taxation	9	(564,676)	96,607
Income tax expense	8	(181,273)	(48,285)
(Loss) profit for the period attributable to owners of the Company		(745,949)	48,322
(Loss) earnings per share attributable to ordinary equity holders of the Company	11		
– basic (loss) earnings per share (HK$)		(3.97)	0.26
– diluted (loss) earnings per share (HK$)		(3.97)	0.13

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2022

	Six months ended 30 September	
	2022	**2021**
	HK$'000	**HK$'000**
	(unaudited)	**(unaudited and restated)**
(Loss) profit for the period	(745,949)	48,322
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of group companies	(31,302)	3,714
– Fair value changes on debt instruments at fair value through other comprehensive income ("FVTOCI")	790	531
Other comprehensive (expense) income for the period	(30,512)	4,245
Total comprehensive (expense) income for the period attributable to owners of the Company	(776,461)	52,567

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

	Notes	30 September 2022 HK$'000 (unaudited)	31 March 2022 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*12*	**1,643,752**	2,083,792
Right-of-use assets		**5,933**	9,592
Intangible assets	*12*	**173,542**	231,022
Exploration and evaluation assets	*13*	**1,605**	1,559
Interests in an associate		**–**	–
Deferred tax assets		**19,058**	39,847
		1,843,890	2,365,812
Current assets			
Trade and bills receivables	*14*	**1,037,289**	666,971
Inventories	*15*	**285,759**	268,822
Other receivables, prepayments and deposits	*16*	**241,505**	202,810
Prepaid taxation		**90**	1,484
Financial assets at fair value through profit or loss ("**FVTPL**")		**39,756**	50,752
Amount due from an associate		**–**	–
Cash and cash equivalents		**31,692**	63,906
		1,636,091	1,254,745
Current liabilities			
Trade payables	*17*	**362,292**	280,345
Other payables and accruals	*18*	**415,791**	267,389
Contract liabilities		**43,033**	30,605
Tax liabilities		**54,276**	34,494
Advances from a Director	*24(a)*	**1,507,090**	1,707,679
Interest-bearing bank borrowing		**–**	66,630
Lease liabilities		**3,706**	6,295
Deferred income		**1,536**	1,718
		2,387,724	2,395,155
Net current liabilities		**(751,633)**	(1,140,410)
Total assets less current liabilities		**1,092,257**	1,225,402

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

	Notes	30 September 2022 HK$'000 (unaudited)	31 March 2022 HK$'000 (audited)
Non-current liabilities			
Convertible notes	*19(a)*	4,105,191	3,501,682
Loan note	*19(b)*	428,728	387,451
Deferred income		2,788	3,980
Deferred tax liabilities		16,243	19,383
Lease liabilities		789	1,077
Provision for rehabilitation		27,371	24,221
		4,581,110	3,937,794
Net liabilities		(3,488,853)	(2,712,392)
Financed by:			
Capital and reserves			
Share capital	*20*	3,763	3,763
Reserves		(3,492,616)	(2,716,155)
Capital deficiencies attributable to owners of the Company		(3,488,853)	(2,712,392)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2022

	Share capital HK$'000	Share options reserve HK$'000	Translation reserve HK$'000	Statutory Surplus Reserve HK$'000	Fair value reserve of financial asset at FVTOCI HK$'000	Capital contribution reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2021 (audited and restated)	3,763	33,741	(4,839)	21,904	–	334,220	(2,782,626)	(2,393,837)
Profit for the period (restated)	–	–	–	–	–	–	48,322	48,322
Other comprehensive income								
Changes in fair value of debt instruments at FVTOCI	–	–	–	–	531	–	–	531
Exchange differences arising on translation	–	–	3,714	–	–	–	–	3,714
Total comprehensive income for the period	–	–	3,714	–	531	–	48,322	52,567
Share option lapsed	–	(67)	–	–	–	–	67	–
At 30 September 2021 (unaudited and restated)	3,763	33,674	(1,125)	21,904	531	334,220	(2,734,237)	(2,341,270)
At 1 April 2022 (audited)	3,763	33,454	24,569	41,654	1,089	334,220	(3,151,141)	(2,712,392)
Loss for the period	–	–	–	–	–	–	(745,949)	(745,949)
Other comprehensive income (expense)								
Changes in fair value of debt instruments at FVTOCI					790			790
Exchange differences arising on translation	–	–	(31,302)	–	–	–	–	(31,302)
Total comprehensive income (expense) for the period	–	–	(31,302)	–	790	–	(745,949)	(776,461)
Share option lapsed	–	(21,288)	–	–	–	–	21,288	–
At 30 September 2022 (unaudited)	3,763	12,166	(6,733)	41,654	1,879	334,220	(3,875,802)	(3,488,853)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2022

	Six months ended 30 September	
	2022 HK$'000 (unaudited)	2021 HK$'000 (unaudited)
Net cash from operating activities	395,142	272,096
Net cash used in investing activities:		
Purchase of property, plant and equipment	(87,256)	(47,334)
Other investing cash flows	(2,123)	(515)
	(89,379)	(47,849)
Net cash used in financing activities:		
Advances from a Director	48,754	–
Repayment of advances from a Director	(314,230)	(225,466)
Repayment of lease liabilities	(3,438)	(3,380)
Repayment of bank loans	(63,481)	–
	(332,395)	(228,846)
Net decrease in cash and cash equivalents	(26,632)	(4,599)
Cash and cash equivalents at beginning of the period	63,906	57,577
Effect of foreign exchange rate changes	(5,582)	89
Cash and cash equivalents at end of the period	31,692	53,067

1. BASIS OF PREPARATION

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

In preparing the condensed consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration to the future liquidity of the Group. The Directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than 12 months from 30 September 2022. The cash flows projections have been determined using estimation of future cash flows to be generated from the Group's operating activities and its working capital needs. Also, 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 2022, advances from a Director of HK$1,507.1 million comprised principal amount and accrued interest of HK$968.4 million and HK$538.7 million respectively. Excluding the accrued interest of HK$538.7 million, the balance of the unutilised facilities of HK$931.6 million remains valid until 29 March 2024 and Mr. Lo does not intend to demand repayment of the principal amount of the loan and the accrued interest until the Company has sufficient cash to make repayment.

While recognising that the Group had net liabilities of approximately HK$3,488.9 million and had net current liabilities of approximately HK$751.6 million at 30 September 2022 and incurred a loss of approximately HK$745.9 million for the period then ended, the Directors are of the opinion that, taking into account of the finance from Mr. Lo and the internally generated funds, the Group will be able to meet its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the finance from Mr. Lo and the internally generated funds will be available. Should the Group be unable to operate as a going concern, adjustments would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for financial liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively, if applicable. The effects of these adjustments have not been reflected in the condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

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

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 2022 are the same as those applied in the preparation of the Group's annual financial statements for the year ended 31 March 2022.

Application of amendments to HKFRSs

The Group has adopted the following revised HKFRSs for the first time for the current period's condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

Except for amendments to HKFRS 3 "Reference to the Conceptual Framework", the Directors anticipate that the application of the above revised HKFRSs will have no material impact on the Group's condensed consolidated financial statements in the foreseeable future. The nature and the impact of the amendments to HKFRS 3 "Reference to the Conceptual Framework" are described below:

Amendments to HKFRS 3 "Reference to the Conceptual Framework"

Amendments to HKFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. These amendments had no impact on the condensed consolidated financial statements. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 April 2022. As there were no business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

3. PRIOR PERIOD ADJUSTMENTS

As disclosed in the Group's audited consolidated financial statements for the year ended 31 March 2022, the management had identified several accounting errors and the consolidated financial statements in respect of the year ended 31 March 2022 have been restated to correct those errors identified. Accordingly, the amounts presented in the Group's condensed consolidated statement of profit or loss and condensed consolidated statement of comprehensive income for the six months ended 30 September 2021 have been restated. The effects of the restatement to the amounts presented in the condensed consolidated statement of profit or loss and condensed consolidated statement of comprehensive income for the six months ended 30 September 2021 are summarised below:

(a) Condensed consolidated statement of profit or loss for the six months period ended 30 September 2021

	Notes	2021 (as previously reported) HK$'000	Prior period adjustments HK$'000	2021 (as restated) HK$'000
Revenue		941,003	–	941,003
Cost of sales		(511,021)	–	(511,021)
Gross profit		429,982	–	429,982
Other income		3,693	–	3,693
Other gains and losses		(10,482)	–	(10,482)
Administrative expenses		(70,887)	–	(70,887)
Changes in fair value on derivative component of convertible notes	*(a)*	494,945	(705,754)	(210,809)
Reversal of impairment losses on property, plant and equipment	*(d)*	195,933	(1,089)	194,844
Reversal of impairment losses on intangible assets		26,148	–	26,148
Reversal of impairment losses on right-of-use assets		221	–	221
Reversal of impairment losses on financial assets, net		(535)	–	(535)
Finance costs	*(a)*	(293,112)	27,544	(265,568)
Profit before taxation		775,906	(679,299)	96,607
Income tax expense	*(c)*	(23,198)	(25,087)	(48,285)
Profit for the period attributable to owners of the Company		752,708	(704,386)	48,322
Earnings per share attributable to ordinary equity holders of the Company				
– basic earnings per share (HK$)		4.00	(3.74)	0.26
– diluted earnings per share (HK$)		4.00	(3.87)	0.13

3. PRIOR PERIOD ADJUSTMENTS (Continued)

(b) Condensed consolidated statement of comprehensive income for the six months period ended 30 September 2021

	Notes	**2021 (as previously reported) HK$'000**	**Prior period adjustments HK$'000**	**2021 (as restated) HK$'000**
Profit for the period		752,708	(704,386)	48,322
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
– Exchange differences on translation of financial statements of group companies		3,714	–	3,714
– Fair value changes on debt instruments at FVTOCI	*(b)*	–	531	531
Other comprehensive income for the period		3,714	531	4,245
Total comprehensive income for the period attributable to owners of the Company		756,422	(703,855)	52,567

Notes:

(a) *The 2020 Convertible Notes contains a conversion option held by the holders and an early redemption option held by the issuer. An accounting error was noted because the conversion option and the redemption option should be treated as a single compound embedded derivative as the two options are not readily separable and independent of each other. For the year ended 31 March 2022, the Group engaged another independent valuer to assess the carrying amount of the 2020 Convertible Notes as at 31 March 2021 and 2020, and certain key assumptions were also reassessed by the valuer in determining the fair value of the 2020 Convertible Notes and the related debt and derivative components. For the interim period ended 30 September 2022, the Group has also engaged an independent valuer to reassess the carrying amount of the 2020 Convertible Notes as at 30 September 2021 by applying the same methodology.*

(b) *Bills receivables were classified at amortised cost in prior years. An incorrect classification on bills receivables was noted in view of the Group's business model for bills receivables being both for collecting of contractual cash flows and for selling. The Group has reassessed that its classification of bills receivables should have been as FVTOCI. The Group also derecognised all bills receivables in their entirety that were transferred upon either discounting or endorsement in prior years, without assessing the extent to which the Group retained the risks and rewards of ownership of the bills receivables. The Group has reassessed its derecognition assessment and certain bills receivables that were transferred did not satisfy the criteria for derecognition.*

(c) *Correction of an accounting error in the prior year resulting in an overstatement of tax provision.*

3. PRIOR PERIOD ADJUSTMENTS (Continued)

(b) Condensed consolidated statement of comprehensive income for the six months period ended 30 September 2021 (Continued)

(d) Accounting for the provision for mining rehabilitation relating to the Group's obligation to remove all machinery, equipment and other property from the mine site and ensure the safe use and reclamation of the environment upon the closure of a mine as required by Mongolia Law on mineral resources. No provision was made in prior years and the Group has reassessed the provision which was adjusted retrospectively.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in mining, processing and sale of coal. Revenue arises from the sale of coal to external customers located in the People's Republic of China (the "**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 focus on the coal mining business. Information is reported to the chief operating decision maker (i.e. the Executive Directors) for the purpose of resource allocation and performance assessment. This is also the basis of organisation whereby the management has chosen to organise the Group.

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

For the six months ended 30 September 2022

	Coal mining HK$'000	Total HK$'000
Segment revenue	1,866,241	1,866,241
Segment profit	191,296	191,296
Unallocated expenses *(Note)*		(23,231)
Other gains and losses		(22,940)
Changes in fair value on derivative component of convertible notes		(418,619)
Finance costs		(291,182)
Loss before taxation		(564,676)

4. REVENUE AND SEGMENT INFORMATION (Continued)

For the six months ended 30 September 2021

	Coal Mining HK$'000	Total HK$'000 (Restated)
Segment revenue	941,003	941,003
Segment profit	602,145	602,145
Unallocated expenses *(Note)*		(21,131)
Other gains and losses		(8,110)
Changes in fair value on derivative component of convertible notes		(210,809)
Finance costs		(265,488)
Profit before taxation		96,607

Note:

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

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

	30 September 2022 HK$'000	31 March 2022 HK$'000
Coal mining	**3,411,245**	3,543,965

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For the six months ended 30 September 2022

5. OTHER INCOME

	Six months ended 30 September	
	2022	**2021**
	HK$'000	**HK$'000**
Interest income	**766**	108
Government grant *(Note)*	**944**	1,217
Sundry income	**8,138**	2,368
	9,848	3,693

Note:

During the periods ended 30 September 2022 and 2021, the grants received represents COVID-19-related grants provided by governments in Mongolia and the PRC 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 both periods.

6. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2022	**2021**
	HK$'000	**HK$'000**
Changes in fair value on financial assets at FVTPL	**(10,996)**	(10,574)
Gain on disposal of property, plant and equipment	**–**	1
Net exchange (loss) gain	**(5,752)**	91
	(16,748)	(10,482)

7. FINANCE COSTS

	Six months ended 30 September	
	2022	**2021**
	HK$'000	**HK$'000**
		(Restated)
Interest on advances from a Director *(Note 24(a))*	**64,887**	69,710
Interest on lease liabilities	**211**	302
Interest on bank borrowing	**1,076**	–
Effective interest expense on convertible notes *(Note 19(a))*	**184,890**	161,826
Effective interest expense on loan note *(Note 19(b))*	**41,277**	33,730
Effective interest expense on provision for rehabilitation	**1,150**	–
	293,491	265,568

8. INCOME TAX EXPENSE

	Six months ended 30 September	
	2022	**2021**
	HK$'000	**HK$'000**
		(Restated)
Current tax:		
Mongolian corporate income tax	**113,375**	14,675
PRC Enterprise Income Tax ("**EIT**")	**38,316**	23,632
(Over) under provision in prior periods:		
PRC EIT	**(1,364)**	1,684
Deferred taxation	**30,946**	8,294
	181,273	48,285

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

8. INCOME TAX EXPENSE (Continued)

Under the Law of the PRC on EIT (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 2030 under the "Tax incentives of Western Development Policy".

Mongolian corporate income tax was calculated at 10% to the first Mongolian Tugrik ("**MNT**") 6 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.

9. (LOSS) PROFIT BEFORE TAXATION

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

	Six months ended 30 September	
	2022	**2021**
	HK$'000	**HK$'000**
Employee benefit expenses, including Directors' emoluments (net of reimbursement from a related party) *(Note 24(d))*	72,703	64,206
Less: employee benefit expenses capitalised in inventories	(34,545)	(28,695)
	38,158	35,511
Depreciation of property, plant and equipment	37,282	31,459
Depreciation of right-of-use assets	3,212	3,183
Amortisation of intangible assets	6,007	6,903

10. DIVIDENDS

No dividends was paid, declared or proposed by the Company during the reporting period (2021: Nil). The Directors do not recommend the payment of an interim dividend.

11. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 September	
	2022	**2021**
	HK$'000	**HK$'000**
		(Restated)
(Loss) earnings		
(Loss) earnings attributable to ordinary equity holders of the Company, as used in the calculation of basic (loss) earnings per share	**(745,949)**	48,322
Adjusted by:		
Changes in fair value on derivative component of convertible notes	N/A	210,809
Interest on convertible notes	N/A	161,826
(Loss) earnings attributable to ordinary equity holders of the Company, as used in the calculation of diluted (loss) earnings per share	**(745,949)**	420,957

	Six months ended 30 September	
	2022	**2021**
	'000	**'000**
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**188,126**	188,126
Effect of dilutive potential ordinary shares *(Note (a) and (b))*:		
Convertible notes	N/A	2,956,887
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**188,126**	3,145,013

11. (LOSS) EARNINGS PER SHARE (Continued)

Notes:

(a) *The computation of diluted loss per share for the period ended 30 September 2022 did not assume the exercise of share options and 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.*

(b) *The computation of diluted earnings per share for the period ended 30 September 2021 did not assume the exercise of share options since assuming the adjusted exercise price was greater than the average market price of the Company's shares during the outstanding period in 2021.*

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

Property, Plant and Equipment

During the six months ended 30 September 2022, the Group spent approximately HK$62,634,000 (2021: (restated) HK$26,742,000), HK$20,047,000 (2021: HK$1,548,000), HK$392,000 (2021: HK$349,000), HK$104,000 (2021: HK$276,000), HK$3,684,000 (2021: HK$6,522,000) and HK$2,395,000 (2021: HK$12,986,000) on mining structures, construction in progress, computer equipment, furniture, fixtures and office equipment, plant, machinery and other equipment and motor vehicles respectively.

Intangible Assets

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

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 an independent qualified professional valuer (the "**Independent Valuer**") to determine the recoverable amount of its property, plant and equipment, right-of-use assets and intangible assets related to the Khushuut mine operations (collectively referred to as "**Khushuut Related Assets**").

For the purposes of impairment testing, 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.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Recoverable Amount Assessment on Khushuut Related Assets (Continued)

The Group performed an impairment test of the Khushuut Related Assets as at 30 September 2022, of which the recoverable amount determined by the Independent Valuer was lower than their carrying values. An impairment loss amount to HK$548,597,000 (2021 (restated): reversal of impairment loss of HK$221,213,000) 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 as follows:

Carrying values of the Khushuut Related Assets as at 30 September 2022:

	Carrying values before impairment loss HK$'000	Impairment loss HK$'000	Carrying values after impairment loss HK$'000
Property, plant and equipment	2,122,075	(493,691)	1,628,384
Right-of-use assets	2,062	(496)	1,566
Intangible assets	226,260	(54,410)	171,850
Total	2,350,397	(548,597)	1,801,800

Carrying values of the Khushuut Related Assets as at 30 September 2021:

	Carrying values before reversal of impairment loss HK$'000	Reversal of Impairment loss HK$'000	Carrying values after reversal of impairment loss HK$'000
Property, plant and equipment	2,398,474	194,844	2,593,318
Right-of-use assets	648	221	869
Intangible assets	272,685	26,148	298,833
Total	2,671,807	221,213	2,893,020

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Recoverable Amount Assessment on Khushuut Related Assets (Continued)

The reason for such an impairment loss being recognized in profit or loss for the period ended 30 September 2022 was mainly due to the changes in current coal prices and forecasted coking coal prices (2021: changes in discount rate, current coal price and estimated coking coal price for the forthcoming four-year period). The above changes have had a significant impact on the value-in-use assessment performed by the Directors in both periods with the cash flows expected to be received.

Impairment assessment

During the period ended 30 September 2022, the management of the Group concluded there was indication for impairment loss and conducted impairment assessment on recoverable amounts of certain property, plant and equipment, right-of-use assets and intangible assets with finite useful life with carrying amounts of HK$2,122,075,000, HK$2,062,000 and HK$226,260,000 respectively. The Group estimates the recoverable amount of the cash-generating unit of mining segment to which the asset belongs when it is not possible to estimate the recoverable amount individually, including allocation of corporate assets when reasonable and consistent basis can be established.

13. EXPLORATION AND EVALUATION ASSETS

	Mining and exploration rights *(Note (a))* HK$'000	Others *(Note (b))* HK$'000	Total HK$'000
At 1 April 2021	151	1,111	1,262
Addition	–	297	297
At 31 March 2022	**151**	**1,408**	**1,559**
Addition	**–**	**46**	**46**
At 30 September 2022	**151**	**1,454**	**1,605**

13. EXPLORATION AND EVALUATION ASSETS (Continued)

Notes:

(a) *Mining and exploration rights include a ternary metal exploration concession of around 10,884 hectares in Western Mongolia acquired during the year ended 31 March 2017.*

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

(c) *Exploration and mining licences for mining of coal 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.*

14. TRADE AND BILLS RECEIVABLES

	30 September 2022 HK$'000	31 March 2022 HK$'000
Trade receivables and accrued income *(Note)*	202,848	335,219
Bills receivables	834,640	332,396
	1,037,488	667,615
Less: Allowance for credit losses	(199)	(644)
	1,037,289	666,971

Note:

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

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

14. TRADE AND BILLS RECEIVABLES (Continued)

The following is an ageing analysis of trade receivables and accrued income and bills receivables net of allowance for credit losses based on the date of revenue recognition:

	30 September 2022 HK$'000	31 March 2022 HK$'000
1 to 30 days	253,102	366,638
31 to 60 days	371,431	225,720
61 to 90 days	77,237	28,441
Over 90 days	335,519	46,172
	1,037,289	666,971

Transferred financial assets that are not derecognised in their entirety

At 30 September 2022, the Group endorsed certain bills receivables accepted by banks in the PRC (the "**Endorsed Bills**") with a carrying amount of HK$180,369,000 (31 March 2022: HK$33,541,000) to certain of its suppliers in order to settle the trade payables and other payables due to such suppliers (the "**Endorsement**"). In addition, the Group discounted certain bills receivables accepted by banks in the PRC (the "**Discounted Bills**") to certain banks to finance its operating cash flows (the "**Discount**"), the related aggregate carrying amount as at 30 September 2022 amounted to HK$547,234,000 (31 March 2022: HK$Nil).

In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills and Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables and other payables settled amounting to HK$180,369,000 (31 March 2022: HK$33,541,000); and the Discounted Bills and the associated other payables amounting to HK$547,234,000 (31 March 2022: HK$Nil). Subsequent to the Endorsement and Discount, the Group did not retain any rights on the use of the Endorsed Bills and Discounted Bills, including the sale, transfer or pledge to any other third parties.

14. TRADE AND BILLS RECEIVABLES (Continued)

Transferred financial assets that are derecognised in their entirety

At 30 September 2022, the Group had Endorsed Bills with an aggregate carrying amount of HK$56,461,000 (31 March 2022: HK$5,679,000) and Discounted Bills with an aggregate carrying amount of HK$64,000,000 (31 March 2022: HK$Nil) that have been transferred and derecognised (the "**Derecognised Bills**"). The Derecognised Bills have maturity from one to six months at the end of the reporting period. In accordance with the relevant laws and regulations in the PRC and relevant discounting arrangements with certain banks, the holders of the Derecognised Bills have a right of recourse against the Group if the accepting banks default (the "**Continuing Involvement**").

In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors of the Company, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the period ended 30 September 2022, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the period/ year or cumulatively.

15. INVENTORIES

	30 September 2022 HK$'000	31 March 2022 HK$'000
Coal	249,327	234,440
Materials and supplies	36,432	34,382
	285,759	268,822

16. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 September 2022 HK$'000	31 March 2022 HK$'000
Other receivables	26,155	18,253
Prepayments	22,266	14,754
Deposits	2,973	2,564
VAT receivables *(Note)*	191,907	168,984
Others	50	101
	243,351	204,656
Less: Allowance for doubtful debts	(1,846)	(1,846)
	241,505	202,810

Note:

*VAT receivables that are due from the Mongolian Tax Authority (the "**MTA**") have been accumulated to date since 2017. VAT receivables mainly arise from services paid for its mining related activities conducted by the Group's subsidiary in Mongolia, MoEnCo. These VAT receivables are unable to off-set against sales VAT as export sales of end products of mineral resources are subject to VAT zero tax rating according to the Mongolia VAT law, which represents the majority of the sales of MoEnCo. However, according to the prevailing tax rules and regulations in Mongolia, a taxpayer may offset future taxes and royalties' payable to the MTA against VAT receivables that are subject to approvals from MTA and the Ministry of Finance.*

Included in the balance are VAT receivables amounting to HK$28 million (MNT8.9 billion) that have been confirmed by the MTA, representing its VAT receivables up to 31 December 2017. The MTA is currently conducting a full tax inspection including confirming the Group's VAT receivables for the years ended 31 December 2018, 2019 and 2020 and other taxes for the years ended 31 December 2017, 2018, 2019 and 2020. VAT receivables have indefinite lives once confirmed by the MTA. The Group has submitted a number of requests to the MTA to offset its confirmed VAT receivables with other taxes payable due to the MTA but has been rejected on the basis that any request will be put on hold until a full tax inspection including other taxes is concluded. The Group anticipates that the recovery will proceed once the inspection is completed and would be recovered in full. However, the timing of completion and the actual approval cannot be anticipated.

17. TRADE PAYABLES

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

	30 September 2022 HK$'000	31 March 2022 HK$'000
0 to 30 days	146,530	158,836
31 to 60 days	49,456	26,407
61 to 90 days	18,287	20,349
Over 90 days	148,019	74,753
	362,292	280,345

The trade payables are normally settled on 30-day terms.

18. OTHER PAYABLES AND ACCRUALS

	30 September 2022 HK$'000	31 March 2022 HK$'000
Other payables *(Note (a))*	134,964	43,919
Accrued staff costs	6,443	25,203
Balance payment for Khushuut road *(Note (b))*	35,958	35,958
Other tax payables *(Note (c))*	238,426	162,309
	415,791	267,389

Notes:

(a) Included in balance are payables arising from the transferred bills receivables that do not satisfy for derecognition (Note 14).

(b) The amount represents the retainage of road paving of the Khushuut road.

(c) Since 1 July 2021, royalty tax in Mongolia has been calculated at a market rate which is published by the Ministry of Finance on a monthly basis. As at 30 September 2022, HK$237,251,000 (31 March 2022: HK$144,570,000) was recorded as royalty tax payable.

19. 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 HK$'000	Derivative components HK$'000	Total HK$'000
At 31 March 2021 (restated)	2,339,313	1,013,530	3,352,843
Interest charge	333,854	–	333,854
Changes in fair value on derivative component	–	(185,015)	(185,015)
At 31 March 2022	2,673,167	828,515	3,501,682
Interest charge	184,890	–	184,890
Changes in fair value on derivative component	–	418,619	418,619
At 30 September 2022	2,858,057	1,247,134	4,105,191

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 matured on 21 November 2019.

CTF and Golden Infinity Convertible Notes

On 6 March 2020, the Company issued 3% 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**") to replace 3% CTF Convertible Note and 3% GI Convertible Note.

The 2020 Convertible Notes with principal amount of HK$3,438,058,423 have a maturity period of five years from the 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 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.

19. 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 redemption option derivative of the issuer. The effective interest rate of the debt component is 14.26% (2021: restated from 21.82% to 14.26%). The Company may at any time before the maturity date by written notices to the holders, redeem the principal amount of the 2020 Convertible Notes (in whole or in part) with accrued interest. The conversion option and the redemption option are treated as a simple compound embedded derivative measured at fair value.

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

	30 September 2022	31 March 2022
Stock price *(Note (i))*	HK$1.12	HK$0.91
Exercise price	HK$1.2	HK$1.2
Volatility *(Note (ii))*	122.68%	114.03%
Dividend yield	0%	0%
Option life *(Note (iii))*	2.43 years	2.93 years
Risk free rate	3.84%	1.89%

Notes:

(i) Trading in the shares of the Company on the Stock Exchange of Hong Kong Limited was suspended from 4 July 2022 to 31 October 2022. The valuer applied the Finnerty model to derive the share price as at 30 September 2022.

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

(iii) 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.

19. 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 is 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 a coupon rate of 3% per annum. The loan note contains no conversion or redemption option.

20. SHARE CAPITAL

Authorised and issued share capital

	30 September 2022 HK$'000	31 March 2022 HK$'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 2021, 31 March 2022 and 30 September 2022	188,125,849	3,763

21. SHARE-BASED PAYMENT

Equity-settled share option scheme

Under the share option scheme adopted by the Company on 30 August 2012, options were granted to certain Directors, employees and consultants of the Group entitling them to subscribe for shares of the Company. The Company operates the share option scheme for the purpose of providing incentive or reward to eligible participants who contribute to the success of the Group's operations. Options may be exercised at any time from the date of grant of the share options. Share options granted were immediately vested at the date of grant.

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

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

As at 30 September 2022

			Number of options			
Grant date	**Exercise price (HK$)**	**Exercisable period**	**Outstanding at 1 April 2022**	**Granted during the period**	**Lapsed during the period**	**Outstanding at 30 September 2022**
1 September 2017	2.260	01-09-2017 to 31-08-2022	13,900,000	–	13,900,000	–
18 January 2021	1.310	18-01-2021 to 17-01-2026	16,300,000	–	–	16,300,000
			30,200,000	–	–	16,300,000
Exercisable at 30 September 2022						16,300,000
Weighted average exercise price (HK$)			1.747	N/A	2.260	1.310

21. SHARE-BASED PAYMENT (Continued)

Equity-settled share option scheme (Continued)

No share options were exercised for both periods.

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

22. CAPITAL COMMITMENTS

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

	30 September 2022 HK$'000	31 March 2022 HK$'000
Other exploration related commitments	4,776	895
Purchase of property, plant and equipment	4,299	4,494
Road improvement and transportation of mining equipment	17,380	13,897
Expansion of wash plant	13,533	42,388
Others	675	235
	40,663	61,909

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, FVTOCI 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 are 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 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 fair inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Financial assets/ financial liabilities	Fair value as at 30 September 2022	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$39,756,000 (31 March 2022: HK$50,752,000)	Level 1	– Quoted bid prices in an active market	N/A	N/A
Bills receivables at FVTOCI	HK$834,640,000 (31 March 2022: HK$332,396,000)	Level 2	– Discounted cash flow: Future cash flows are estimated based on discount rate observed in the available market.	N/A	N/A
Embedded derivative component of convertible notes	HK$1,247,134,000 (31 March 2022: HK$828,515,000)	Level 3	– Binomial Valuation Model – The key inputs are stock price, exercise price, option life, risk free rate, volatility and dividend yield	Volatility is 122.68% (31 March 2022: 114.03%)	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.

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)

Note:

If the 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$102,823,000 (2021: profit for the period would decrease by HK$163,179,000) or decrease by HK$4,856,000 (2021: profit for the period would increase by HK$52,695,000), as a result of changes in fair value of the derivative component of the convertible notes.

Reconciliation of Level 3 fair value measurements of financial liabilities

	Embedded derivative component of convertible notes HK$'000
At 1 April 2022	828,515
Changes in fair value recognised in profit or loss	418,619
At 30 September 2022	1,247,134

The change in fair 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.

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate to 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 2022 HK$'000	31 March 2022 HK$'000
Balance of advances *(Note)*	1,507,090	1,707,679

	Six months ended 30 September	
	2022 HK$'000	2021 HK$'000
Effective interest charge for the period *(Note 7)*	64,887	69,710

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 Group has sufficient cash to make repayment and the repayment will not affect the Group's liquidity position. 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 payable to and interest charge on convertible note by a related party – Golden Infinity

	30 September 2022 HK$'000	31 March 2022 HK$'000
Convertible note	673,676	639,856

	Six months ended 30 September	
	2022 HK$'000	2021 HK$'000
Coupon interest charge on convertible note for the period *(Note (ii))*	9,426	9,407

Notes:

(i) Mr. Lo has a controlling interest in Golden Infinity. Details of the convertible notes held by Golden Infinity are set out in Note 19(a).

(ii) The amount represents coupon interest charge on a convertible note. The effective interest expense on a convertible note for the period is approximately HK$33,820,000 (2021: HK$29,605,000)

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

	30 September 2022 HK$'000	31 March 2022 HK$'000
Loan note	428,728	387,451

	Six months ended 30 September	
	2022 HK$'000	2021 HK$'000
Coupon interest charge on loan note for the period *(Note (ii))*	8,623	8,647

24. RELATED PARTY TRANSACTIONS (Continued)

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

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 19(b).*

(ii) *The amount represents coupon interest charge on a loan note. The effective interest expense on a loan note for the period is approximately HK$41,277,000 (2021: HK$33,730,000).*

(d) Transactions with related party

	Six months ended 30 September	
	2022	**2021**
Nature of transactions	**HK$'000**	**HK$'000**
Reimbursement of sharing of administrative services from a related party *(Note (i) & (ii))*	4,239	3,360
Coal transportation services provided by a related party *(Note (i))*	84,957	–
Geochemical analysis services provided by a related party *(Note (i))*	78	–

Notes:

(i) *Except for Mr. To Hin Tsun, Gerald and Mr. Tang Chi Kei who are the directors of the Company, the directors of the Company and the ultimate holding company of the related parties are the same.*

(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 20 July 2022 and extended the agreement for a period of 1 year.*

24. RELATED PARTY TRANSACTIONS (Continued)

(e) Balance with related parties

	30 September 2022 HK$'000	31 March 2022 HK$'000
Rental deposits paid to related parties *(Note (i))*	401	401
Lease liabilities *(Note (i) and (iii))*	2,792	4,204
Balance of sharing of administrative services from a related party *(Notes (ii) and (iv))*	17,857	14,188
Balance of coal transportation services provided by a related party *(Notes (ii) and (v))*	43,783	2,157

Notes:

(i) Mr. Lo, Mr. Rex Lo and Mr. Chris Lo are the directors of the related parties or ultimate holding company of the related parties.

(ii) Except Mr. To Hin Tsun, Gerald and Mr. Tang Chi Kei who are the directors of the Group, the directors of the Company and the ultimate holding company of the related parties are the same.

(iii) During the periods ended 30 September 2022 and 31 March 2022, the Group entered into a lease agreement for the use of the properties with the related company for 2 years. The Group has recognised an addition of right-of-use assets and lease liabilities of HK$518,011 and HK$518,011 respectively (2021: addition of right-of-use assets and lease liabilities of HK$7,097,000 and HK$7,097,000 respectively).

(iv) The balance is non-trade in nature, unsecured, interest-free and repayable on demand.

(v) The balance is trade in nature, unsecured, interest-free and repayable on demand.

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	
	2022	**2021**
	HK$'000	**HK$'000**
Basic salaries, other allowances and benefits in kind	8,302	6,739
Contributions to Mandatory Provident Fund Scheme	45	36
	8,347	6,775

Note: No share options were granted to the Group's key management for both periods.