

MEC

MONGOLIA ENERGY CORPORATION

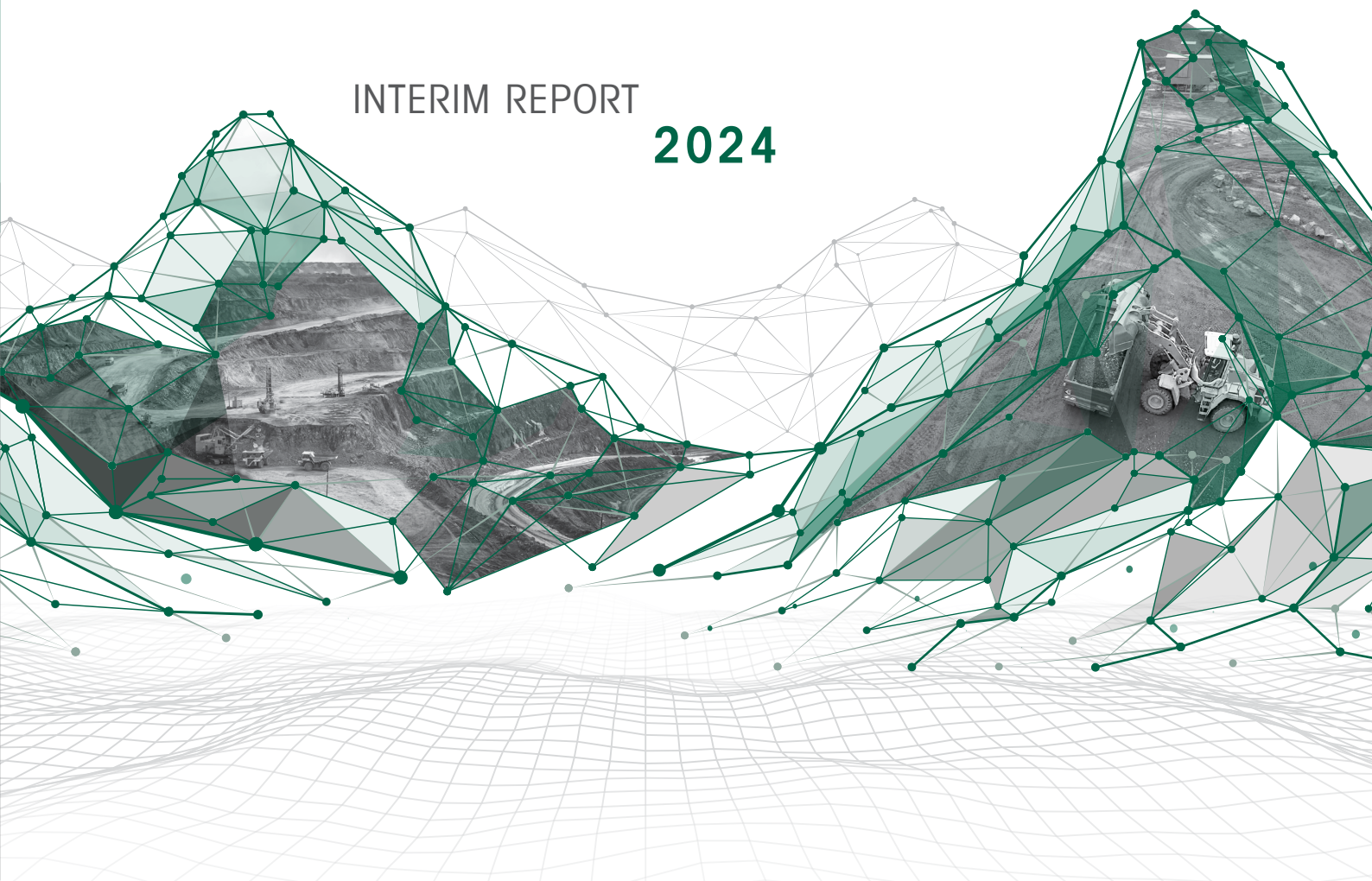
蒙古能源有限公司

Incorporated in Bermuda with limited liability

Stock Code: 276

INTERIM REPORT

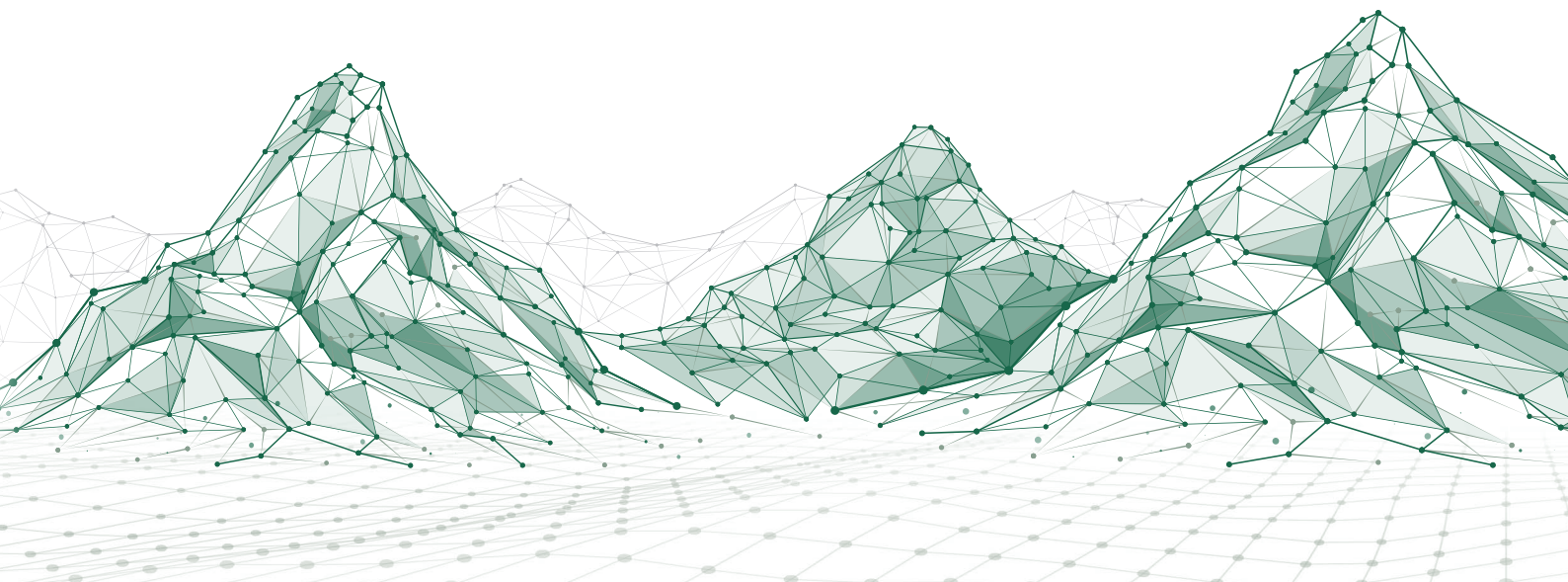
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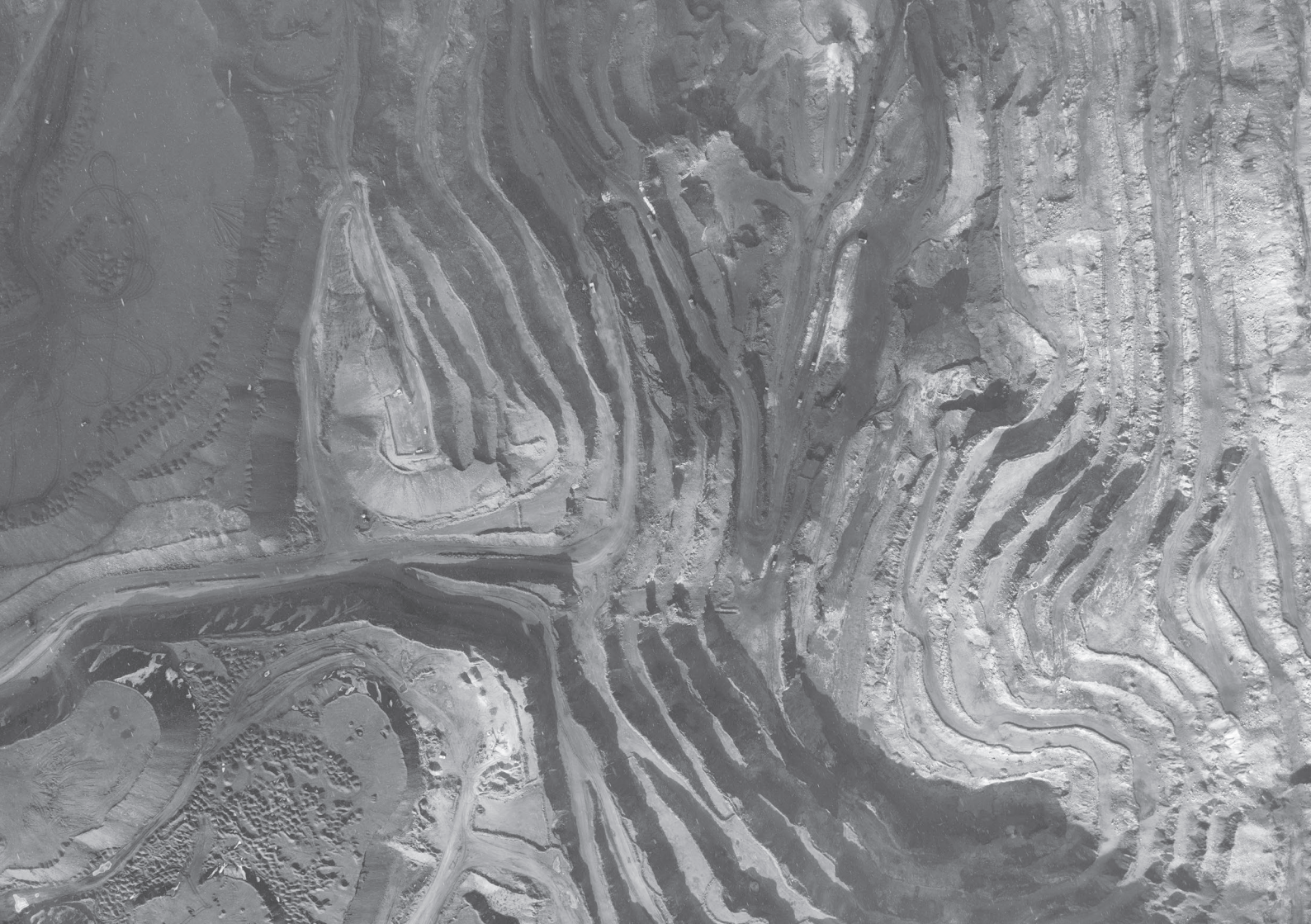


CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements and opinions with respect to the operations and businesses of MONGOLIA ENERGY CORPORATION LIMITED (“**MEC**” or “**Company**”) 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.

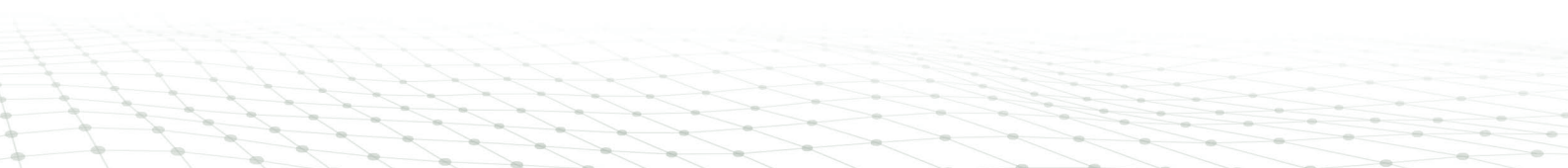
Our actual results may be different from those expressed or implied by these forward-looking statements and opinions which could affect the market price of our shares. You should also read the risk factors set out under our circulars, announcements, and reports for each of the transactions, which are 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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 (the “**Board**”) of directors (the “**Directors**”), I hereby present the interim results of the Group for the six months ended 30 September 2024 (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 4,244,300 tonnes (2023: 2,680,600 tonnes) of Run-of-Mine (“**ROM**”) coal were produced and approximately 1,031,228 tonnes (2023: 1,048,598 tonnes) of coal, including clean coking coal, thermal coal and raw coal were sold to our customers during this period.

RESULTS ANALYSIS

Revenue

MEC experienced consistent revenue growth during the Financial Period. Through collaborative efforts, the Group successfully increased production capacity and sales volume. During the Financial Period, the Group sold approximately 1,006,900 tonnes (2023: 906,700 tonnes) of clean coking coal, approximately 24,300 tonnes (2023: 141,800 tonnes) of thermal coal and approximately 28 tonnes (2023: 98 tonnes) of raw coal. The average selling prices of clean coking coal, thermal coal and raw coal net of sales tax were approximately HK\$1,685.7 (2023: HK\$1,714.2), HK\$44.0 (2023: HK\$19.3) and HK\$719.9 (2023: HK\$690.1) per tonne respectively. A modest decline in average selling price of clean coking coal was observed during the Financial Period, reflecting a cautious market sentiment due to persistent oversupply of coking coal in the PRC.

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 approximately HK\$1,059.2 million (2023: HK\$978.5 million). The overall increase in the cost of sales reflected the increase in sales activities. It was divided into cash costs of HK\$1,027.6 million (2023: HK\$947.0 million) and non-cash costs of HK\$31.6 million (2023: HK\$31.5 million).

CHAIRMAN'S REPORT (CONTINUED)

Gross Profit

The gross profit for the Financial Period was approximately HK\$640.7 million (2023: HK\$578.7 million). Gross profit margin was approximately 37.7% (2023: 37.2%), which was at around the same level as 2023.

Other Gains and Losses

The improvement in net other losses was due to the reduction in net exchange loss by approximately HK\$10.9 million derived mainly from the strengthening of Renminbi during the Financial Period.

Administrative Expenses

A significant decrease in administrative expenses was primarily driven by a one-time provision for tax penalties and undue losses related to a tax audit conducted by the Mongolian General Tax Office for the tax period from 2017 to 2020 which was provided in the corresponding period of the last financial year.

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 gain in fair value change amounting to HK\$165.0 million was recognised in the Financial Period (2023: HK\$326.3 million). The major inputs into the binomial valuation model to work out the valuation of the conversion option derivative at the end of the Financial Period were stated in Note 18(a) to the condensed consolidated financial statements.

Recoverable Amount Assessment on Khushuut Related Assets (“Mine Assets”)

At the end of the Financial Period, an independent qualified professional valuer was engaged by the Group to determine the recoverable amount of the Mine Assets. The recoverable amount of the Mine Assets is based on the discounted cash flow model that incorporates best estimates made by the management of the Group on price trend of coking coal, coking coal grades, production capacity and rates, future capital expenditure, inflation rate and production costs over the mine life of the Khushuut mine, etc. The cash flow projection covers the expected life of the whole operation. Major assumptions including selling price 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.

CHAIRMAN'S REPORT (CONTINUED)

Key assumptions used in the discounted cash flow model as at 30 September 2024 and 31 March 2024 are set out below:

	Notes	30 September 2024	31 March 2024
Discount rate	(a)	28.66%	35.06%
Average current coking coal price per tonne	(b)	US\$184	US\$213
Inflation rate	(c)	2.02%	2.22%
Predicted average annual growth rate of the coking coal price for the forthcoming four-year period since period/year end	(d)	-0.25%	-4.26%
Annual projected sales volume (tonnes)		1.9 million	1.9 million

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 period 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 a China ten-year government bond as at 30 September 2024. 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 around 30 September 2024;
- (c) The inflation rate was updated with reference to external market research data; and
- (d) The predicted average annual growth rate was updated based on the latest publicly available market data as at 30 September 2024. For the remaining period of the discounted cash flow model, the growth rate is the same as the inflation rate.

Pursuant to the recoverable amount assessment, an impairment loss amounting to HK\$598.5 million was recognised in the Financial Period (2023: Impairment loss of HK\$660.9 million). The decrease in recoverable amount on the Mine Assets is mainly due to the decrease of 13.6 percentage points in the average current coking coal price per tonne as compared to that in the last financial year.

Finance Costs

The major components in finance costs were the effective interest expense on convertible notes, interest charge on advances from a Director and effective interest expense on 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 (2023: 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 years. The interest on the loan note was charged at an effective interest rate of 22.37% per annum (2023: 22.37%).

CHAIRMAN'S REPORT (CONTINUED)

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 from China. Therefore, the steel market performance in China in turn affects our production and planning.

The global economy had been resilient over the first half of 2024. The better-than-expected economic performance was spurred by strong exports from Asia, particularly in the technology sector. In China, the revival in domestic consumption and increase in export continued to serve as a driver to its economic recovery. Apart from the United States and Japan, most countries recorded positive growth.

China's economy continued to maintain stable expansion in the first half of 2024 despite rising challenges from home and abroad. According to the National Bureau of Statistics of China ("**NBS**"), China's gross domestic product ("**GDP**") expanded by 5% to reach 61.68 trillion yuan (US\$8.49 trillion) in the first six months of 2024. In the second quarter, China's GDP grew by 4.7% year-on-year, edging down from the 5.3% growth recorded in the first quarter. In the first six months, due to the accumulating external demand under falling interest rate, China's exports grew by 6.9%. Retail sales of consumer goods were up 3.7%, and fixed-asset investment edged up by 3.9% while investment in high-tech industries surged by 10.6% year-on-year in China.

The global crude steel production volume was 1,394 million tonnes for the first nine months this year, representing a decrease of 1.9% year-on-year according to the recent data of the World Steel Association. Global demand was weak and the price was unstable particularly in manufacturing and construction sectors. China remained the biggest crude steel producing country in the world during this period, with 768.5 million tonnes of steel output, representing a year-on-year decline of 3.6%, mainly due to the shrinking of the property sector and unfavourable progress of infrastructure investments.

In respect of coal, driven by the strong growth in China and in India, global coal demand grew by 2.6% in 2023, reaching a new record of 8.7 billion tonnes, according to International Energy Agency ("**IEA**"). The increase of demand for coal was mainly due to the growth in both electricity generation and industrial sectors. Although there has been growth in demand for coal in China, India and Vietnam in the first half of 2024, the increase would be offset by the decline in demand for coal in Europe. It is anticipated that global demand would remain generally stable for the full year of 2024. According to the data from the NBS, China produced 3.48 billion tonnes of raw coal from January to September 2024, representing a year-on-year increase of 0.6%. Apart from domestic coal production, China imported 390 million tonnes of coal during the same period, representing a year-on-year increase of 11.9%.

The total profits of China's enterprises in coal mining and washing industries in the first nine months of 2024 were RMB459.5 billion, representing a year-on-year decrease of 21.9%. Domestic coal consumption was lower than expected, and the supply was sufficient.

In the first half of 2024, China imported a total of 57.38 million tonnes of coking coal, going up by 25.8% year-on-year, mainly from Mongolia and Russia.

Mongolia is China's largest coking coal supplier. China imported over 43.41 million tonnes of coking coal from Mongolia in the first nine months of 2024, representing a surge of 15.2% year-on-year. The main driver for the substantial increase was the swelling demand from China, as well as the cost competitiveness of Mongolian coal. Based on the current trend, it is estimated that total exports of all types of coal from Mongolia are likely to reach 75 million tonnes this year, according to the local media quoting from the Ministry of Finance of Mongolia.

BUSINESS REVIEW

Coal Sales

We recorded a revenue of HK\$1,699.9 million from the sales of coking coal, thermal coal and raw coal to our customers in China and Mongolia in the Financial Period, representing a rise of 9.2% compared with the previous financial period.

Coal Production

During the Financial Period, approximately 8,759,300 bank cubic meters ("**BCM**") of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2023: 8,927,100 BCM). Production volumes of ROM coking coal and thermal coal were approximately 2,035,600 tonnes and 2,208,700 tonnes respectively (ROM coking coal and thermal coal in 2023: 1,582,200 tonnes and 1,098,400 tonnes respectively).

Coal Processing

During the Financial Period, approximately 1,236,200 tonnes of ROM coal (2023: 950,100 tonnes) were processed by the dry coal processing plant, producing approximately 978,900 tonnes of raw coking coal (2023: 784,400 tonnes). The average recovery rate was 79.2%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customers.

In Xinjiang, approximately 1,700,700 tonnes of raw coking coal (2023: 1,402,900 tonnes) were processed by the washing plant, producing approximately 1,134,400 tonnes of clean coking coal (2023: 987,700 tonnes). The average recovery rate was 66.7%.

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 1,662,300 tonnes of raw coking coal (2023: 1,397,900 tonnes) were shipped from Mongolia to Xinjiang.

CHAIRMAN'S REPORT (CONTINUED)

Customers and Sales

No master coal contracts were signed with our customers during the Financial Period. The actual sales including price and the quantity of coal to be delivered were negotiated and mutually agreed from time to time between us and the customers, monthly in general, during this period. Our sales contract clearing is based on the actual clean coking coal delivered after washing.

During the Financial Period, we sold approximately 531,700 tonnes of clean coking coal to our largest customer and it accounted for approximately 53.2% of our revenue in the Financial Period. In general, our production and shipment of coal are closely linked to the market and other conditions, and shipment negotiations between us and the customers from time to time. Apart from our largest customer, we had eight other customers in Xinjiang for our coking coal during the Financial Period.

Licences

During the Financial Period, the Group had ten mineral licences including nine mining licences, of which eight are for our Khushuut operations and one is for an area not within Khushuut, and one exploration licence. Please refer to the section in the most recent annual report headed "Exploration and Mining Concessions of the Group".

Legal and Political Aspects

In June 2024, Mongolia held its parliamentary elections following significant constitutional amendments enacted in May 2023, which expanded the size of the State Great Hural and introduced a mixed electoral system aimed at strengthening the effectiveness and diversity of the Parliament of Mongolia ("**Parliament**").

Under the new edition of the Law on Political Parties effective from 1 January 2024, it brought about substantial distinctive structure of the parliamentary elections. These included public funding for political parties, gender and diversity requirements for leadership roles, and financial incentives for parties nominating women candidates above the mandated gender quota. These legal measures contributed to the election of a younger and more diverse Parliament.

The Mongolian People's Party (MPP) maintained a slim majority in Mongolia's parliamentary elections with the Democratic Party making major gains and other coalitions also sharing seats. On 5 July 2024, the Parliament reappointed L. Oyun-Erdene as Prime Minister. A new coalition cabinet was formed, consisting of 16 ministries, including the newly established Ministry of Industries and Mineral Resources, along with 25 agencies.

Following the formation of the cabinet, the Parliament approved the government's 2024-2028 Action Programme in August 2024. This programme focuses on four key areas: social, economic, governance, and regional development. It includes plans for 14 large-scale infrastructure and development projects (referred to as "**mega projects**").

The mega projects involve the construction of new cross-border railway connecting Mongolia and China, the building of freight terminals at Gobi Desert border ports, thermal power plants to support large mining operations, and two hydropower plants to increase energy supply in western regions. The programme also emphasises on the development of renewable energy networks and the construction of water pipelines and reservoirs to meet the needs of residents, livestock, industry, and mining operations in the central and Gobi regions. Other significant infrastructure projects include the 415 km railway line, the gold refining plant, and the launch of a national satellite, which will ensure reliable communication in Mongolia's vast and sparsely populated areas.

A number of the mega projects are aiming to support the development of mining industry, with key initiatives such as the construction of an oil processing complex, the commissioning of coal-chemical and coke-chemical plants, and the establishment of steel and iron ore concentration facilities in the Gobi region. Additionally, the expansion of a copper processing complex at the Erdenet plant, a world-leading copper producer, and the development of uranium mining and export projects are included in the government's agenda.

In April 2024, the Parliament passed the National Wealth Fund Law along with supplementary resolutions to establish mechanisms for managing and distributing revenues from the country's natural resources. The goal is to ensure fair and equitable distribution of resource-based wealth, benefitting both current and future generations, and rebalancing the mining sector.

The sovereign wealth fund consists of three key components: National Development Fund, Fund for Future Generations and National Savings Fund.

These funds will support government-backed securities, infrastructure development, and projects addressing issues such as transportation, air pollution, rural energy supply, and water shortages. The enactment of the National Wealth Fund Law required amendments to other laws, including the Mineral Resources Law, which introduced restrictions on the transfer of shares in companies holding strategically important mineral licences. Additionally, the Corporate Income Tax Law was amended to increase the tax rate from 10% to 30% on the transfer of licences for strategic mineral deposits, including transfers via inheritance, share transactions, or changes in voting rights.

In response to the severe winter disaster in 2023 and 2024, which caused economic difficulties and heavily impacted herding communities, the government introduced a package of legislative measures in April and June 2024. These laws aim to provide both immediate relief and long-term support for herders.

These new policies reflect Mongolia's commitment to inclusive governance, sustainable economic growth, and infrastructure development, positioning the country for long-term prosperity while addressing key challenges in mining, energy, and environmental management.

CHAIRMAN'S REPORT (CONTINUED)

Tax

PRC Tax

In prior years, it was assessed that the principal activity of one of the Group's subsidiaries, 新疆蒙科能源科技有限公司 (“新疆蒙科”), satisfied the definition of one of the encouraged industries within the “Tax incentives of Western Development Policy”. Hence, 新疆蒙科 was entitled to enjoy a preferential income tax rate of 15% until 31 December 2030, which also aligned with industry practice within the region.

During the current year, a notification was received from the local tax authority informing that the principal activity of 新疆蒙科 does not meet the definition and income tax should be provided at 25%. As a result of the changes in facts and circumstances, income tax has been provided at 25% for the 2023 tax year and an additional tax provision of HK\$132.1 million has been provided accordingly.

According to the further notice from the tax bureau of Qinghe County, Xinjiang after clarification, 新疆蒙科 is confirmed not to be qualified for the preferential tax rate of 15% under the “Tax incentives of Western Development Policy”. Accordingly, the tax rate of 新疆蒙科 should be assessed at 25% for the tax years between 2020 to 2022. As such, the additional tax and late payment amounting to an aggregate of approximately RMB65 million shall be payable by 新疆蒙科. As at the date of this report, 新疆蒙科 has paid RMB49.51 million and the remaining balance will be settled as soon as possible.

Mongolian Tax

After the hearing of the Tax Dispute Resolution Committee of Mongolia (“**TDRC**”) on 29 January 2024, a number of tax matters identified in the tax demand letter to MoEnCo, one of the Group's subsidiaries, received from the Mongolian Tax Authority (“**MTA**”) on 28 July 2023 were ordered to be reinvestigated. As a result of the reinvestigation, on 21 May 2024, MoEnCo received a revised tax demand letter (“**Revised Tax Demand Letter**”) dated 7 May 2024 from the MTA, imposing a revised total tax demand of approximately HK\$929.8 million. The revision is mainly due to, among others, the MTA assertions of MoEnCo's under-reporting of the sales revenues which is a transfer pricing issue under dispute at the TDRC hearing held on 29 January 2024. Up to the date of this report, the TDRC re-hearing has yet to take place.

In addition, subsequent to the year end on 6 May 2024, MoEnCo received another demand notice from the MTA for an amount of HK\$403.3 million for additional tax mainly relating to royalty tax for the period from 2022 to 2024. MoEnCo has filed an opposition and complaint to the Administrative Court of Mongolia.

We will continue to work with our tax adviser and legal advisers to handle all relevant tax disputes and to explore the best alternatives to protect our best interest.

An assessment has been made by the management on the uncertain tax position. An aggregate amount of additional provision for tax, penalties and undue losses of HK\$273 million has been provided accordingly as at 31 March 2024. During the Financial Period, a provision for tax, penalties and undue losses of HK\$60.3 million was made in respect of the uncertain tax position.

Uncertainties Relating to Going Concern

The independent auditor of the Company, Ernst & Young, made a disclaimer of audit opinion for the financial year ended 31 March 2024 because of the material uncertainty arising from the soon expiry of the loan note and convertible notes in November 2024 and March 2025 respectively. As at the date of this report, the Company has successfully obtained a moratorium from the loan note holder up to the end of June 2025. The Company will exercise its best endeavour to negotiate a debt refinancing with all the holders of the notes in reasonable time before their respective maturity. We will update our development progress in due course.

FINANCIAL REVIEW

Liquidity and Financial Resources

In preparing the condensed consolidated financial statements, the Directors have given careful consideration of the future liquidity of the Group. While recognising that the Group had net liabilities of approximately HK\$3,121.2 million and net current liabilities of approximately HK\$4,751.8 million as at 30 September 2024, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future given that: (1) Mr. Lo Lin Shing, Simon (“**Mr. Lo**”), a substantial shareholder and chairman (the “**Chairman**”) of the Board 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\$1,060.4 million as at 30 September 2024 remains valid until 24 March 2026; (2) Mr. Lo does not intend to demand immediate repayment of his advances to the Company; (3) Agreement in principle to renew the convertible notes upon their maturity in March 2025 was obtained from the note holders by the Company; and (4) the Company entered into a standstill agreement with the loan note holder for a six-month moratorium up to 30 June 2025 on repayment of principals and interests due under the loan note as more time is needed for the Company to conclude a debt restructuring with the Company’s convertible and loan note holders. The borrowings of the Group as at 30 September 2024 were the convertible notes, loan note and advances from Mr. Lo amounting to aggregate of HK\$5,222.7 million (31 March 2024: HK\$5,251.4 million). Advances from Mr. Lo, convertible notes and loan note as at 30 September 2024 are all classified as current liabilities.

As at 30 September 2024, the cash and bank balances of the Group were HK\$75.5 million (31 March 2024: HK\$97.8 million) and the liquidity ratio was 0.34 (31 March 2024: 0.28).

CHAIRMAN'S REPORT (CONTINUED)

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\$541.4 million (2023: Impairment loss of HK\$604.6 million). During the Financial Period, the Group had incurred capital expenditures of approximately HK\$41.5 million (2023: HK\$43.7 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. As at 30 September 2024, 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 comprises prepaid value added tax of HK\$331.9 million (31 March 2024: HK\$280.0 million) to be refunded by the Government of Mongolia or offset against future taxes and royalties payable to the Government of Mongolia. The utilisation of the prepaid value added tax is subject to the approval of the MTA on our Mongolian subsidiary.

Financial Assets at Fair Value Through Profit or Loss

As at 30 September 2024, the value of the financial assets at fair value through profit or loss was HK\$25.0 million (31 March 2024: HK\$30.9 million), which was approximately 0.6% (31 March 2024: 0.7%) 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 whose shares are listed on GEM of The Stock Exchange of Hong Kong Limited. 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 2024: 5.58%) of the total issued share capital of Jade Bird. During the Financial Period, the Group did not receive any dividend (2023: HK\$6.2 million) from Jade Bird.

Other Payables and Accruals

The major components of other payables and accruals are unsettled royalty tax in Mongolia and liabilities related to discounted bills receivables which had not been matured.

Charge on Group's Assets

There was no charge on the Group's assets as at 30 September 2024 (31 March 2024: Nil). As at 30 September 2024, the gearing ratio of the Group was 1.27 (31 March 2024: 1.25) which was calculated based on the Group's total borrowings to total assets.

Significant Investments held, Material Acquisitions and Disposals of Subsidiaries, Associates or Joint Ventures

The Group had no significant investments held, material acquisitions and disposals of subsidiaries, associates or joint ventures during the Financial Period.

Future Plans for Material Investments and Capital Assets

As at the date of this report, the Group did not have any concrete future plans for material investments or capital 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

The Group did not have material contingent liabilities as at 30 September 2024 (31 March 2024: Nil).

OUTLOOK

Geopolitical instability or conflicts have been the most-cited global risk since March 2022. Under the persisting geopolitical and trade tensions, the outlook for the global economy remains subdued for the second half of 2024. These trends are projected to continue into 2025. According to Organisation for Economic Cooperation and Development, with the decline in inflation and more accommodative monetary policies in many economies, it projects the global growth at 3.2% in both 2024 and 2025.

CHAIRMAN'S REPORT (CONTINUED)

Notwithstanding growth in consumption and factory output, tumbling property sector and slow export growth remain the major factors to drag the third quarter GDP growth of China to 4.6%. China's industrial output and foreign trade were up 5.8% and 5.3% in the first three quarters of 2024 respectively. Since the roll-out of the stimulus package in September this year, the national economy has showed positive signs of growth. As the real GDP was expanded by 4.8% in the first three quarters of the year, the full year GDP growth target of China at 5% is expected to be reached with extra stimulus in the fourth quarter of 2024.

Steel demand in the developing world is projected to grow by 3.5% in 2024 and 4.2% in 2025. The growth is mainly driven by India's robust growth and a rebound in other major emerging economies. However, China's steel demand is expected to decline by 3% in 2024 and a further 1% in 2025 under its property market conditions. As China is the largest steel consumer in the world, the World Steel Association forecasts that this year's global steel demand will drop further by 0.9% to 1,751 million tonnes, but a rebound by 1.2% in 2025 to reach 1,772 million tonnes. Manufacturing slowdown, high costs, economic uncertainty, and tighter financing conditions have created a "wait-and-see" attitude and negative effect on the steel using sectors.

According to IEA, global coal demand is expected to stay broadly flat in 2024. Indonesia, India and China are the three largest coal producers in the world. While the coal-intensive industries in China (i.e. cement and steel) are still struggling due to the sluggish property sector, coal demand increased in both India and Vietnam in the first half of 2024 due to strong electricity demand for their strong growing economy. However, the IEA estimates global coal demand will decrease slightly by 0.3% in 2025 due to the decline in the demand of China.

In respect of coking coal, China's demand is expected to rise only slightly in 2024 comparing with last year. The property and infrastructure market continue to remain weak. However, no major fall in demand has been observed as decent increase was seen from the manufacturing sector and elevated exports. China is expected to consume 595.64 million tonnes of coking coal in 2024, representing a slight increase of 0.9% from 2023. As there is a lack of fundamental improvement in the downstream demand, Chinese mills are cautious about ramping up their production. Domestic coking coal supply is unlikely to improve in short term. During the first nine months of 2024, China imported a total 89 million tonnes of coking coal, representing a 22.1% increase year-on-year, according to the data from the China Customs. Mongolia has become the largest coking coal supplier to the Chinese market, with its share increased from 26% in 2021 to 53% in 2023.

During the first nine months of 2024, Mongolia exported 59.1 million tonnes of coal, representing a 26.3 % increase compared with the same period last year. Mongolia has set a target to export 78.1 million tonnes of coal in 2024.



CHAIRMAN'S REPORT (CONTINUED)

Coal remains a cornerstone of Mongolia's export, and the key contributor to the Mongolia's economy. However, it depends very much on the demand of China which is in turn governed by its economy, in particular, the stabilisation of China's property and infrastructure market. Furthermore, the global economy is subject to change due to the escalation of geopolitical tension among countries. On the other hand, coking coal price has been falling continuously since 2023. The complicated and complex environment will be a challenge to the Group in the way forward. We will exercise caution and adopt a prudent and flexible strategy in our operation and production planning in response to the ever-changing internal and external conditions.

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 2024

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the Financial Period (2023: Nil).

DIRECTORS' INTERESTS

As at 30 September 2024, 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 C3 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

Name of Directors	Number of shares			Number of underlying shares			
	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 <i>(Note)</i>	1,800,000	602,204,563 <i>(Note)</i>	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. Lo, James Cze Chung	–	–	–	500,000	–	500,000	0.27%
Mr. To Hin Tsun, Gerald	135,000	–	–	500,000	–	635,000	0.34%
Mr. Tsui Hing Chuen, William _{JP}	12,500	–	–	500,000	–	512,500	0.27%
Mr. Lau Wai Piu	5,030	–	–	500,000	–	505,030	0.27%
Mr. Lee Kee Wai, Frank	–	–	–	500,000	–	500,000	0.27%

Note: The relevant shares were held by 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 2024, 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 2024, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

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

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

Notes:

1. Chow Tai Fook (Holding) Limited held 99.8% interest in Chow Tai Fook Nominee Limited. 81.03% interest of Chow Tai Fook (Holding) Limited was held by Chow Tai Fook Capital Limited in which it was held as to 48.98% by Cheng Yu Tung Family (Holdings) Limited and as to 46.65% by Cheng Yu Tung Family (Holdings II) Limited. By virtue of the SFO, each of Cheng Yu Tung Family (Holdings II) Limited, Cheng Yu Tung Family (Holdings) Limited, Chow Tai Fook Capital Limited and Chow Tai Fook (Holding) Limited was deemed to be interested in 2,698,101,424 shares held by Chow Tai Fook Nominee Limited.
2. Among 2,698,101,424 shares held by Chow Tai Fook Nominee Limited, 2,692,601,424 shares were underlying shares.
3. Ms. Ku Ming Mei, Rouisa, the spouse of Mr. Lo, was deemed to be interested in 634,280,520 shares owned by Mr. Lo beneficially, under the SFO.
4. Dr. Cheng Kar Shun was interested in the entire issued share capital of Dragon Noble Group Limited (“**Dragon**”). By virtue of the SFO, he was deemed to be interested in 7,889,250 shares held by Dragon and 1,977,500 shares were owned by Ms. Ip Mei Hing (the spouse of Dr. Cheng Kar Shun) through her controlled corporation Brighton Management Limited.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

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 2024.

SHARE OPTION SCHEME

Pursuant to a share option scheme adopted by the Company on 30 August 2012 (the “**2012 Option Scheme**”), 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 2012 Option Scheme expired on 29 August 2022. A new share option scheme to grant options to eligible participants to subscribe for ordinary shares of the Company was adopted on 12 December 2022 (the “**2022 Option Scheme**”). No share option has been granted since the adoption of the 2022 Option Scheme. The number of options available for grant under the 2022 Share Option Scheme as at 1 April 2024 and 30 September 2024 was 18,812,584.

There were no movements in share options during the Financial Period. Details of outstanding share options under the 2012 Option Scheme as at 30 September 2024 are as follows:

Name or category of participants	Date of Grant	Exercise Price HK\$	Exercise period	Vesting Period	Number of shares subject to options
					As at 1 April 2024 and 30 September 2024
Mr. Lo	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	1,800,000
Ms. Yvette Ong	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	1,800,000
Mr. Lo, Rex Cze Kei	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	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
Mr. Lo, James Cze Chung	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000
Mr. To Hin Tsun, Gerald	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000
Mr. Tsui Hing Chuen, William _{JP}	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000
Mr. Lau Wai Piu	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000
Mr. Lee Kee Wai, Frank	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000
Employees in aggregate (including a director of certain subsidiaries)	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	7,200,000
TOTAL					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 Part 2 of Appendix C1 to the Listing Rules, save for the following deviations:

- i. Code provision F.2.2 of the CG Code stipulates that the chairman of the board should attend the Annual General Meeting ("**AGM**").

Due to another business engagement, the Chairman was unable to attend the 2024 AGM. The Chairman of the Audit Committee and Remuneration Committee of the Company took the chair of the 2024 AGM and answered questions raised by the shareholders. The AGM provides a channel for communication between the Board and the shareholders. Other than the AGM, the shareholders may communicate with the Company through the contact methods listed on the Company's website.

Compliance with model code for securities transaction

The Company has adopted its own Code for Securities Transactions by Directors (the "**Code**"), which are on terms no less exacting than those set out in the Model Code in Appendix C3 to the Listing Rules. The Code is sent to each Director on his/her initial appointment and from time to time when the same is amended or restated.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

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 2024.

HUMAN RESOURCES

As at 30 September 2024, excluding site and construction workers directly employed by our contractors, the Group employed 875 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.

CHANGE IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in the Directors' information since the date of the 2024 annual report of the Company up to the date of this report are set out below:

1. Mr. Lo, James Cze Chung was re-designated as an executive Director from a non-executive Director with effect from 13 August 2024; and
2. Mr. Lo, James Cze Chung was re-designated as an executive director of Vision Values Holdings Limited (stock code: 862) from a non-executive director with effect from 13 August 2024.

AUDIT COMMITTEE

The Audit Committee of the Company (the "**Audit Committee**") 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 2024 with no disagreement with the accounting treatment adopted by the Company.

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

Mr. Lo, James Cze Chung (re-designated on 13 August 2024)

Non-executive Director

Mr. To Hin Tsun, Gerald

Independent Non-executive Directors

Mr. Tsui Hing Chuen, William_{JP}

Mr. Lau Wai Piu

Mr. Lee Kee Wai, Frank

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2024

	Notes	Six months ended 30 September	
		2024 HK\$'000 (unaudited)	2023 HK\$'000 (unaudited)
Revenue	3	1,699,926	1,557,257
Cost of sales		(1,059,215)	(978,525)
Gross profit		640,711	578,732
Other income	4	3,490	9,981
Other gains and losses	5	(6,497)	(16,676)
Administrative expenses		(150,113)	(166,869)
Changes in fair value on derivative component of convertible notes	18(a)	164,952	326,267
Impairment losses on property, plant and equipment		(541,403)	(604,642)
Impairment losses on right-of-use assets		(526)	(517)
Impairment losses on intangible assets		(56,564)	(55,784)
Reversal of impairment losses (impairment losses) on financial assets		4,432	(2,201)
Finance costs	6	(345,432)	(339,164)
Loss before taxation	7	(286,950)	(270,873)
Income tax expense	8	(155,956)	(275,965)
Loss for the period attributable to owners of the Company		(442,906)	(546,838)
Loss per share attributable to ordinary equity holders of the Company	10		
– basic and diluted loss per share (HK\$)		(2.35)	(2.91)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2024

	Six months ended 30 September	
	2024 HK\$'000 (unaudited)	2023 HK\$'000 (unaudited)
Loss for the period	(442,906)	(546,838)
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of group companies	11,230	(33,069)
– Fair value changes on debt instruments at fair value through other comprehensive income (“FVTOCI”)	(4,236)	1,790
Other comprehensive income (expense) for the period	6,994	(31,279)
Total comprehensive expense for the period attributable to owners of the Company	(435,912)	(578,117)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2024

	Notes	30 September 2024 HK\$'000 (unaudited)	31 March 2024 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	11	1,505,047	2,053,437
Right-of-use assets	11	7,664	10,315
Intangible assets	11	152,228	214,973
Exploration and evaluation assets	12	2,157	1,972
Interest in an associate		–	–
Deferred tax assets		31,648	24,784
		1,698,744	2,305,481
Current assets			
Trade and bills receivables	13	1,362,700	1,037,155
Inventories	14	531,341	402,669
Other receivables, prepayments and deposits	15	414,491	341,306
Prepaid taxation		81	50
Financial asset at fair value through profit or loss ("FVTPL")		24,953	30,874
Amount due from an associate		–	–
Cash and cash equivalents		75,455	97,826
		2,409,021	1,909,880
Current liabilities			
Trade payables	16	363,323	337,406
Other payables and accruals	17	1,236,265	870,579
Contract liabilities		24,335	9,627
Tax liabilities		308,522	357,624
Advances from a Director	23(a)	839,636	1,006,689
Convertible notes	18(a)	3,740,689	3,664,199
Loan note	18(b)	642,393	580,545
Lease liabilities		4,959	5,961
Deferred income		725	1,509
		7,160,847	6,834,139
Net current liabilities		(4,751,826)	(4,924,259)
Total assets less current liabilities		(3,053,082)	(2,618,778)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2024

	Notes	30 September 2024 HK\$'000 (unaudited)	31 March 2024 HK\$'000 (audited)
Non-current liabilities			
Deferred income		532	476
Deferred tax liabilities		30,789	30,143
Lease liabilities		1,381	2,584
Provision for rehabilitation		35,381	33,272
		68,083	66,475
Net liabilities		(3,121,165)	(2,685,253)
Financed by:			
Capital and reserves			
Share capital	19	3,763	3,763
Reserves		(3,124,928)	(2,689,016)
Capital deficiencies attributable to owners of the Company		(3,121,165)	(2,685,253)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2024

	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 2023 (audited)	3,763	12,166	1,685	72,849	2,618	334,220	(4,764,147)	(4,336,846)
Loss for the period	–	–	–	–	–	–	(546,838)	(546,838)
Other comprehensive income (expense)								
Changes in fair value of debt instruments at FVTOCI	–	–	–	–	1,790	–	–	1,790
Exchange differences arising on translation	–	–	(33,069)	–	–	–	–	(33,069)
Total comprehensive income (expense) for the period	–	–	(33,069)	–	1,790	–	(546,838)	(578,117)
At 30 September 2023 (unaudited)	3,763	12,166	(31,384)	72,849	4,408	334,220	(5,310,985)	(4,914,963)
At 1 April 2024 (audited)	3,763	12,166	(30,702)	108,383	8,677	334,220	(3,121,760)	(2,685,253)
Loss for the period	–	–	–	–	–	–	(442,906)	(442,906)
Other comprehensive income (expense)								
Changes in fair value of debt instruments at FVTOCI	–	–	–	–	(4,236)	–	–	(4,236)
Exchange differences arising on translation	–	–	11,230	–	–	–	–	11,230
Total comprehensive income (expense) for the period	–	–	11,230	–	(4,236)	–	(442,906)	(435,912)
At 30 September 2024 (unaudited)	3,763	12,166	(19,472)	108,383	4,441	334,220	(3,564,666)	(3,121,165)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2024

	Six months ended 30 September	
	2024 HK\$'000 (unaudited)	2023 HK\$'000 (unaudited)
Net cash from operating activities	227,332	193,760
Net cash used in investing activities		
Purchases of property, plant and equipment	(41,464)	(42,920)
Other investing cash flows	454	117
	(41,010)	(42,803)
Cash used in financing activities		
Repayment to a Director	(206,780)	(130,200)
Repayment of lease liabilities	(3,250)	(3,386)
	(210,030)	(133,586)
Net (decrease) increase in cash and cash equivalents	(23,708)	17,371
Cash and cash equivalents at beginning of the year	97,826	60,264
Effect of exchange rate changes on the balance of cash held in foreign currencies	1,337	(1,997)
Cash and cash equivalents at end of the year	75,455	75,638

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

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 D2 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 the management. The cash flow projections cover a period of at least 12 months from 30 September 2024. The cash flow projections have been determined using estimation of future cash flows to be generated from the Group’s operating activities and its working capital needs.

As at 30 September 2024, the Group had convertible notes and a loan note of HK\$3,740.7 million and HK\$642.4 million respectively which would fall due within one year, and cash and cash equivalents of HK\$75.5 million. The estimation of future cash flows is based on the assumption that the Company will exercise its endeavour to reach an agreement with the holders of the convertible notes and loan note on a debt refinancing plan before the respective maturity dates of the convertible notes and loan note to allow the Group to continue to meet its financial obligations. As set out in Note 18, the holders of the convertible notes are Chow Tai Fook Nominee Limited (“**CTF**”) and Golden Infinity Co., Ltd. (“**Golden Infinity**”) and the holder of the loan note is Ruby Pioneer Limited (“**Ruby Pioneer**”). Golden Infinity is a wholly-owned company of 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 whereas Mr. Lo and Mr. Lo, Rex Cze Kei are the directors of Ruby Pioneer. As of the date of this report, the discussion with CTF has not yet initiated. In addition, Mr. Lo has provided facilities amounting to HK\$1,900.0 million by way of advances to the Group. As at 30 September 2024, advances from Mr. Lo in the sum of HK\$839.6 million represented as principal amount. The balance of the unutilised facilities of HK\$1,060.4 million remains valid until 24 March 2026. Mr. Lo has undertaken not to demand for repayment of the principal amount of the loan and the accrued interest until the Group has sufficient cash to make repayment which will not affect the Group’s liquidity position.

While recognising that the Group had net liabilities of approximately HK\$3,121.2 million and net current liabilities of approximately HK\$4,751.8 million as at 30 September 2024 and incurred a loss of approximately HK\$442.9 million for the period then ended, the Directors are of the opinion that, taking into account the above assumptions, the Group will be able to meet its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

1. BASIS OF PREPARATION (Continued)

However, should the above refinancing plan not be able to implement successfully, the Group would 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 2024 are the same as those applied in the preparation of the Group's annual financial statements for the year ended 31 March 2024.

Application of revised 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 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current (the "2020 Amendments")
Amendments to HKAS 1	Non-current Liabilities with Covenants (the "2022 Amendments")
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

The application of the above revised HKFRSs have no material impact on the Group's condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

3. 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 coal is delivered to and accepted by the customers. Revenue from coal washing service provided to external customers located in the PRC is recognised over time when the obligation of coal washing service is completed.

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 purposes of resource allocation and performance assessment. This is also the basis of organisation whereby 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 2024

	Coal mining HK\$'000	Total HK\$'000
Segment revenue	1,699,926	1,699,926
Segment loss	(76,440)	(76,440)
Unallocated expenses (Note)		(26,450)
Other income		114
Other gains and losses		(5,964)
Changes in fair value on derivative component of convertible notes		164,952
Impairment loss on financial asset		(14)
Finance costs		(343,148)
Loss before taxation		(286,950)
Timing of revenue recognition		
Goods transferred at a point in time		1,699,926
Services transferred over time		–
		1,699,926

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

3. REVENUE AND SEGMENT INFORMATION (Continued)

For the six months ended 30 September 2023

	Coal mining HK\$'000	Total HK\$'000
Segment revenue	1,557,257	1,557,257
Segment loss	(257,923)	(257,923)
Unallocated expenses (<i>Note</i>)		(23,030)
Other income		6,187
Other gains and losses		(5,072)
Changes in fair value on derivative component of convertible notes		326,267
Finance costs		(317,302)
Loss before taxation		(270,873)
Timing of revenue recognition		
Goods transferred at a point in time		1,557,257
Services transferred over time		–
		1,557,257

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 2024 HK\$'000	31 March 2024 HK\$'000
Coal mining	4,030,035	4,120,617

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

4. OTHER INCOME

	Six months ended 30 September	
	2024 HK\$'000	2023 HK\$'000
Interest income	452	365
Government grants	862	803
Dividend income	–	6,178
Sundry income	2,176	2,635
	3,490	9,981

5. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2024 HK\$'000	2023 HK\$'000
Changes in fair value on financial asset at FVTPL	(5,921)	(5,076)
Gain on disposal of property, plant and equipment	84	69
Loss on write off of property, plant and equipment	–	(114)
Net exchange loss	(660)	(11,555)
	(6,497)	(16,676)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

6. FINANCE COSTS

	Six months ended 30 September	
	2024 HK\$'000	2023 HK\$'000
Interest on advances from a Director (<i>Note 23(a)</i>)	39,727	55,332
Interest on lease liabilities	255	455
Effective interest expense on convertible notes (<i>Note 18(a)</i>)	241,442	211,244
Effective interest expense on loan note (<i>Note 23(c)(ii)</i>)	61,848	50,512
Effective interest expense on provision for rehabilitation	2,160	21,621
	345,432	339,164

7. LOSS BEFORE TAXATION

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

	Six months ended 30 September	
	2024 HK\$'000	2023 HK\$'000
Employee benefit expenses, including Directors' emoluments (net of reimbursement from a related party) (<i>Note 23(d)</i>)	77,621	66,897
Less: employee benefit expenses capitalised in inventories	(37,664)	(30,074)
	39,957	36,823
(Reversal of impairment losses) impairment losses on:		
Trade and bills receivables	(4,446)	2,201
Amount due from an associate	14	–
	(4,432)	2,201
Depreciation of property, plant and equipment	49,933	26,809
Depreciation of right-of-use assets	2,960	2,925
Amortisation of intangible assets	6,187	2,563

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

8. INCOME TAX EXPENSE

	Six months ended 30 September	
	2024 HK\$'000	2023 HK\$'000
Current tax:		
Withholding tax	–	1,236
PRC Enterprise Income Tax (“EIT”)	67,639	41,996
Mongolian corporate income tax (<i>Note</i>)	95,044	217,251
Deferred taxation	(6,727)	15,482
	155,956	275,965

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

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.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

8. INCOME TAX EXPENSE (Continued)

Note:

*On 28 July 2023, one of the Group's subsidiaries, MoEnCo LLC ("MoEnCo"), received a tax demand letter ("**First Tax Demand Letter**") from the Mongolian Tax Authority ("MTA"), arising from the completion of the tax audit covering the fiscal years 2017 to 2020, imposing a total tax demand (including additional taxes and penalties) of approximately HK\$406.4 million (US\$52.1 million) on a number of tax matters, including mainly transfer pricing, treatment of unrealised exchange differences and royalty tax, etc. The Group had made a partial provision of HK\$167.5 million for the financial period ended 30 September 2023. For details, please refer to the Company's announcements dated 21 August 2023 and 7 November 2023.*

*MoEnCo filed an appeal notice against the First Tax Demand Letter and a hearing took place on 29 January 2024, of which the Tax Dispute Resolution Committee of Mongolia ("**TDRC**") ordered for a reinvestigation on a number of tax matters identified in the First Tax Demand Letter.*

*As a result of the reinvestigation, on 21 May 2024, MoEnCo received a revised tax demand letter ("**Revised Tax Demand Letter**") from the MTA, imposing a revised total tax demand of approximately HK\$929.8 million. The revision is mainly due to, among others, the MTA assertions of MoEnCo's under-reporting of the sales revenues which is a transfer pricing issue under dispute at the TDRC hearing held on 29 January 2024.*

In addition, on 6 May 2024, MoEnCo received another demand notice from the MTA for an amount of HK\$403.3 million for additional tax relating to mainly royalty tax for the period from 2022 to 2024.

The Group has engaged with independent external tax consultants and legal advisor in assessing the findings and further disagrees on a number of matters and its calculation included in the Revised Tax Demand Letter and on 14 June 2024, the Group has filed another appeal notice against the Revised Tax Demand Letter. An assessment has been made on the uncertain tax position and an additional tax provision of HK\$29.9 million was provided for the period ended 30 September 2024.

9. DIVIDENDS

No dividends was paid, declared or proposed by the Company during the reporting period (2023: Nil). The Directors do not recommend the payment of an interim dividend.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

10. LOSS PER SHARE

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

	Six months ended 30 September	
	2024 HK\$'000	2023 HK\$'000
Losses		
Loss attributable to ordinary equity holders of the Company, as used in the calculation of basic loss per share	(442,906)	(546,838)
Adjusted by:		
Changes in fair value on derivative component of convertible notes	–	–
Interest on convertible notes	–	–
Loss attributable to ordinary equity holders of the Company, as used in the calculation of diluted loss per share	(442,906)	(546,838)

	Six months ended 30 September	
	2024 '000	2023 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	188,126	188,126
Effect of dilutive potential ordinary shares (<i>Note</i>):		
Convertible notes	N/A	N/A
Weighted average number of ordinary shares for the purpose of diluted loss per share	188,126	188,126

Note:

The computation of diluted loss per share for the period ended 30 September 2024 and 2023 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

Property, Plant and Equipment

The following is an analysis of the Group's addition to property, plant and equipment:

	Six months ended 30 September	
	2024 HK\$'000	2023 HK\$'000
Mining structures	22,831	35,757
Construction in progress	837	792
Computer equipment	472	513
Furniture, fixtures and office equipment	148	309
Plant, machinery and other equipment	13,142	5,177
Motor vehicles	4,034	1,190
	41,464	43,738

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 the Khushuut Related Assets

At the end of the reporting period, there was an indicator of impairment and 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 the **"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.

The Group performed an impairment test of the Khushuut Related Assets as at 30 September 2024, of which the recoverable amount determined by the Independent Valuer was lower than their carrying values, and an impairment loss amounting to HK\$598,493,000 (2023: impairment loss of 660,943,000) was recognised in the condensed consolidated statement of profit or loss for the period ended 30 September 2024.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS (Continued)

Recoverable Amount Assessment on the Khushuut Related Assets (Continued)

Carrying values of the Khushuut Related Assets as at 30 September 2024:

	Carrying values before impairment loss HK\$'000	Impairment loss HK\$'000	Carrying values after impairment loss HK\$'000
Property, plant and equipment	2,029,025	(541,403)	1,487,622
Right-of-use-assets	1,925	(526)	1,399
Intangible assets	207,103	(56,564)	150,539
	2,238,053	(598,493)	1,639,560

Carrying values of the Khushuut Related Assets as at 30 September 2023:

	Carrying values before impairment loss HK\$'000	Impairment loss HK\$'000	Carrying values after impairment loss HK\$'000
Property, plant and equipment	1,014,175	(604,642)	409,533
Right-of-use-assets	825	(517)	308
Intangible assets	88,981	(55,784)	33,197
	1,103,981	(660,943)	443,038

The reason for such an impairment loss being recognised in profit or loss for the period ended 30 September 2024 was mainly due to the changes in the average current coking coal price per tonne (2023: the changes in pre-tax discount rate and the average current coking coal price per tonne). 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

12. EXPLORATION AND EVALUATION ASSETS

	Mining and exploration rights (Note (a) & (c)) HK\$'000	Others (Note (b)) HK\$'000	Total HK\$'000
At 1 April 2023	151	1,538	1,689
Additions	–	283	283
At 31 March 2024	151	1,821	1,972
Additions	–	185	185
At 30 September 2024	151	2,006	2,157

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) Others represent 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

13. TRADE AND BILLS RECEIVABLES

	30 September 2024 HK\$'000	31 March 2024 HK\$'000
Trade receivables	386,937	511,398
Bills receivables	976,094	526,199
	1,363,031	1,037,597
Less: allowance for credit losses	(331)	(442)
	1,362,700	1,037,155

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.

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

	30 September 2024 HK\$'000	31 March 2024 HK\$'000
1 to 30 days	261,240	278,673
31 to 60 days	146,463	137,563
61 to 90 days	104,091	122,205
Over 90 days	850,906	498,714
	1,362,700	1,037,155

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

13. TRADE AND BILLS RECEIVABLES (Continued)

Transferred financial assets that are not derecognised in their entirety

At 30 September 2024, the Group endorsed certain bills receivables accepted by banks in the PRC (the “**Endorsed Bills**”) with a carrying amount of HK\$152,980,000 (31 March 2024: HK\$129,998,000) 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 2024 amounted to HK\$369,093,000 (31 March 2024: HK\$131,912,000).

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\$152,980,000 (31 March 2024: HK\$129,998,000); and the Discounted Bills and the associated other payables amounting to HK\$369,093,000 (31 March 2024: HK\$131,912,000). 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.

Transferred financial assets that are derecognised in their entirety

At 30 September 2024, the Group had Endorsed Bills with an aggregate carrying amount of HK\$104,100,000 (31 March 2024: HK\$111,811,000) and Discounted Bills with an aggregate carrying amount of HK\$218,967,000 (31 March 2024: HK\$193,935,000) 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 2024, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

14. INVENTORIES

	30 September 2024 HK\$'000	31 March 2024 HK\$'000
Coal	509,310	379,617
Materials and supplies	22,031	23,052
	531,341	402,669

15. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 September 2024 HK\$'000	31 March 2024 HK\$'000
Other receivables	34,710	42,483
Prepayments	45,951	17,670
Deposits	3,811	2,999
VAT receivables (Note)	331,865	280,000
	416,337	343,152
Less: allowance for credit losses	(1,846)	(1,846)
	414,491	341,306

Note:

VAT receivables that are due from the MTA have been accumulated to date since 2017. VAT receivables mainly arise from services paid for its mining related activities conducted by 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 rate 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 the MTA and the Ministry of Finance.

Included in the balance are VAT receivables amounting to HK\$94.8 million (MNT41.1 billion) that have been confirmed by the MTA, representing its VAT receivables up to 31 December 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 the tax inspection including other taxes is concluded. The Group anticipates that the recovery will proceed once the tax dispute with the MTA is settled and would be recovered in full. However, the timing of completion and the actual approval cannot be anticipated. For details of the tax dispute case, please refer to Note 8.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

16. 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 2024 HK\$'000	31 March 2024 HK\$'000
0 to 30 days	150,539	164,312
31 to 60 days	54,030	41,107
61 to 90 days	35,024	30,226
Over 90 days	123,730	101,761
	363,323	337,406

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

17. OTHER PAYABLES AND ACCRUALS

	30 September 2024 HK\$'000	31 March 2024 HK\$'000
Other payables (Note (a))	564,164	271,900
Accrued staff costs	9,757	8,240
Balance payment for Khushuut road (Note (b))	35,958	35,958
Other tax payables (Note (c))	626,386	554,481
	1,236,265	870,579

Notes:

- (a) Included in balance are payables arising from the transferred bills receivables that do not satisfy for derecognition (Note 13).
- (b) The amount represents the retainage of road paving of the Khushuut road.
- (c) Since 1 July 2021, royalty tax on sales of coal 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 2024, HK\$622,641,000 (31 March 2024: HK\$546,402,000) was recorded as royalty tax payable.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

18. CONVERTIBLE NOTES AND LOAN NOTE

(a) Convertible notes

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

	Debt component HK\$'000	Derivative component HK\$'000	Total HK\$'000
At 1 April 2023	3,054,605	1,131,838	4,186,443
Interest charge	437,082	–	437,082
Changes in fair value of derivative component	–	(959,326)	(959,326)
At 31 March 2024	3,491,687	172,512	3,664,199
Interest charge	241,442	–	241,442
Changes in fair value of derivative component	–	(164,952)	(164,952)
At 30 September 2024	3,733,129	7,560	3,740,689

2020 Convertible Notes with maturity date 6 March 2025

In prior years, the Company issued HK\$2,424,822,000 3% convertible note to CTF (the “**3% CTF Convertible Note**”), HK\$542,315,000 3% convertible note to 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

18. CONVERTIBLE NOTES AND LOAN NOTE (Continued)

(a) Convertible notes (Continued)

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

CTF and Golden Infinity Convertible Notes (Continued)

The 2020 Convertible Notes contain two components, a debt component and a derivative component with a conversion option derivative of the holders and a redemption option derivative of the issuer. The effective interest rate of the debt component is 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 2024	31 March 2024
Stock price	HK\$0.79	HK\$0.65
Exercise price	HK\$1.2	HK\$1.2
Volatility (Note (i))	77.62%	105.99%
Dividend yield	0%	0%
Option life (Note (ii))	0.43 years	0.93 years
Risk free rate	3.32%	4.10%

Notes:

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

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

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

No conversion was made during both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

18. CONVERTIBLE NOTES AND LOAN NOTE (Continued)

(b) Loan Note

The 3% ZV Convertible Note matured on 21 November 2019. On 21 November 2019, Mr. Lo took up the full amount owing to the 3% ZV Convertible Note holder through Ruby Pioneer. 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.

19. SHARE CAPITAL

Authorised and issued share capital

	30 September 2024 HK\$'000	31 March 2024 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 2023, 31 March 2024 and 30 September 2024	188,125,849	3,763

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

20. SHARE-BASED PAYMENT

Equity-settled share option scheme

Under the share option scheme adopted by the Company on 30 August 2012 (the “**Share Option Scheme**”), options were granted to certain Directors, employees and 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 within the option period. 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. A new share option scheme for granting options to eligible participants to subscribe for ordinary shares of the Company was adopted on 12 December 2022 (the “**2022 Option Scheme**”).

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 2024

Grant date	Exercise price (HK\$)	Exercisable period	Number of options		
			Outstanding at 1 April 2024	Granted during the period	Lapsed during the period
18 January 2021	1.310	18-01-2021 to 17-01-2026	16,300,000	–	–
Exercisable at 30 September 2024					16,300,000
Weighted average exercise price (HK\$)			1.310	–	–

No share options were exercised during the Financial Period.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

20. SHARE-BASED PAYMENT (Continued)

Equity-settled share option scheme (Continued)

The number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme of the Company as at 30 September 2024 was 16,300,000 (31 March 2024: 16,300,000), representing 8.7% (2023: 8.7%) of the shares of the Company as at 30 September 2024.

The maximum aggregate number of ordinary shares which may be issued in respect of all options and awards to be granted under 2022 Option Scheme and any other schemes of the Company (the “**Scheme Mandate Limit**”) shall not exceed 10% of the ordinary shares of the Company in issue as at the adoption date of the 2022 Option Scheme. The Scheme Mandate Limit may be refreshed by ordinary resolution of the shareholders in general meeting after three years from the date of the shareholders’ approval for the last refreshment (or the adoption date), provided that the Scheme Mandate Limit so refreshed shall not exceed 10% of the total number of issued shares as at the date of such shareholders’ approval of the refreshment of the Scheme Mandate Limit.

The exercise price of share options is determinable by the directors, but shall be at least the highest of (i) the closing price of the share as stated in the Stock Exchange’s daily quotations sheet on the offer date; (ii) the average closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for five trading days immediately preceding the offer date; and (iii) the nominal value of a share.

At the end of the reporting period, the Company had 16,300,000 share options outstanding under the Share Option Schemes of the Company. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 16,300,000 additional ordinary shares of the Company and additional share capital of HK\$21,353,000 (before issue expenses).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

21. CAPITAL COMMITMENTS

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

	30 September 2024 HK\$'000	31 March 2024 HK\$'000
Other exploration related commitments	3,929	1,253
Construction of building	8,462	1,825
Purchase of property, plant and equipment	967	982
Road improvement and transportation of mining equipment	17,846	12,455
Expansion of wash plant	9,426	5,838
Others	349	349
	40,979	22,702

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

The Group's financial assets at FVTPL, 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.

- 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 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input	Relationship of unobservable inputs to fair value
	30 September 2024 HK\$'000	31 March 2024 HK\$'000				
Listed equity security classified as financial asset at FVTPL	24,953	30,874	Level 1	– Quoted bid prices in an active market	N/A	N/A
Bills receivables at FVTOCI	976,094	526,199	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	7,560	172,512	Level 3	– Binomial Valuation Model – The key inputs are share price, exercise price, option life, risk free rate, volatility and dividend yield	Volatility is 77.62% (31 March 2024: 105.99%)	A slight increase in the volatility would result in significant higher fair value measurement, and vice versa (<i>Note</i>)

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

Note:

If the listed share prices of the Company had been 10% 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\$4,796,000 (2023: HK\$7,097,000) or decrease by HK\$3,195,000 (2023: HK\$3,761,000), as a result of changes in fair value of the derivative component of the convertible notes.

If the volatility of listed share prices of the Company had been 10% 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\$1,935,000 (2023: HK\$8,425,000) or decrease by HK\$1,578,000 (2023: HK\$2,952,000), as a result of changes in fair value of the derivative component of the convertible notes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

Reconciliation of Level 3 fair value measurements of financial liabilities

	Embedded derivatives component of convertible notes HK\$'000
At 1 April 2024	172,512
Changes in fair value recognised in the condensed consolidated statement of profit or loss	(164,952)
At 30 September 2024	7,560

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.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

23. RELATED PARTY TRANSACTIONS

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

(a) Advances from Mr. Lo

	30 September 2024 HK\$'000	31 March 2024 HK\$'000
Balance of advances (Note)	839,636	1,006,689

	Six months ended 30 September	
	2024 HK\$'000	2023 HK\$'000
Effective interest charge for the period (Note 6)	39,727	55,332

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

23. RELATED PARTY TRANSACTIONS (Continued)

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

	30 September 2024 HK\$'000	31 March 2024 HK\$'000
Convertible note	683,677	669,669

	Six months ended 30 September 2024 HK\$'000	2023 HK\$'000
Coupon interest charge on convertible note for the period (Note (ii))	9,426	9,426

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 18(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\$44,157,000 (2023: HK\$38,637,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

23. RELATED PARTY TRANSACTIONS (Continued)

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

	30 September 2024 HK\$'000	31 March 2024 HK\$'000
Loan note	642,393	580,545

	Six months ended 30 September	
	2024 HK\$'000	2023 HK\$'000
Coupon interest charge on loan note for the period (Note (ii))	8,623	8,623

Notes:

- (i) Mr. Lo and Mr. Lo, Rex Cze Kei are the directors of Ruby Pioneer. Details of the loan note by Ruby Pioneer are set out in Note 18(b).
- (ii) The amount represents coupon interest charge on a loan note. The effective interest expense on a loan note for the period is approximately HK\$61,848,000 (2023: HK\$50,512,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

23. RELATED PARTY TRANSACTIONS (Continued)

(d) Transactions with related party

Nature of transactions	Six months ended 30 September	
	2024 HK\$'000	2023 HK\$'000
Reimbursement of sharing of administrative services from a related party (<i>Notes (i) and (iii)</i>)	3,263	3,280
Coal transportation services provided by a related party (<i>Notes (i) and (iv)</i>)	140,197	62,417
Geology exploration survey services provided by a related party (<i>Note (i)</i>)	382	–
Flight services provided by a related party (<i>Note (ii)</i>)	564	–

Notes:

- (i) Except for Mr. To Hin Tsun, Gerald who is the director of the Company, the directors of the Company and the ultimate holding company of the related parties are the same.
- (ii) Mr. Lo, Mr. Rex Lo, Mr. Chris Lo and Mr. Lo, James Cze Chung are the directors of the related parties.
- (iii) 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 19 July 2024 and extended the agreement for a period of 1 year.
- (iv) The transaction in respect of the logistics services for coal transportation in the PRC provided to the Group constitutes continuing connect transaction as defined in Chapter 14A of the Listing Rules.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

23. RELATED PARTY TRANSACTIONS (Continued)

(e) Balance with related parties

	30 September 2024 HK\$'000	31 March 2024 HK\$'000
Rental deposits paid to related parties (Note (i))	379	379
Lease liabilities (Notes (i) and (iii))	2,587	3,835
Balance of sharing of administrative services from a related party (Notes (ii) and (iv))	31,949	28,686
Balance of coal transportation services provided by a related party (Notes (ii) and (v))	133,346	2,764
Reimbursement of flight services to a related party (Notes (i) and (v))	564	–

Notes:

- (i) Mr. Lo, Mr. Rex Lo, Mr. Chris Lo and Mr. Lo, James Cze Chung are the directors of the related parties or ultimate holding company of the related parties.
- (ii) Except Mr. To Hin Tsun, Gerald who is the director 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 2024 and 31 March 2024, the Group entered into new lease agreements for the use of the properties with the related companies for 2 years. The Group has recognised an addition of right-of-use assets and lease liabilities of HK\$738,000 and HK\$738,000 respectively (2023: addition of right-of-use assets and lease liabilities of HK\$6,432,000 and HK\$6,432,000 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2024

23. 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	
	2024 HK\$'000	2023 HK\$'000
Basic salaries, other allowances and benefits in kind	8,715	8,744
Retirement benefit scheme contributions	45	45
	8,760	8,789

Note:

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