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MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

The board of directors (the “**Board**”) of Mongolia Energy Corporation Limited (the “**Company**”) announces the condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 September 2018 (the “**Financial Period**”) together with the comparative figures for the corresponding period in the previous year as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2018

		Six months ended	
		30 September	
		2018	2017
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	360,372	247,385
Cost of sales		(207,485)	(121,525)
Gross profit		152,887	125,860
Other income		1,876	2,283
Other gains and losses	4	(37,131)	(26,824)
Administrative expenses		(64,356)	(81,540)
Changes in fair value on derivative component of convertible notes	13	63,584	83,759
Impairment loss on available-for-sale financial asset		–	(29)
Impairment loss on financial assets		(2,508)	(4)
Finance costs	5	(354,017)	(301,398)
Loss before taxation	7	(239,665)	(197,893)
Income tax credit	6	3,520	–

		Six months ended 30 September 2018	2017
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (unaudited)
Loss for the period attributable to owners of the Company		<u>(236,145)</u>	<u>(197,893)</u>
Loss per share attributable to owners of the Company	8		
– basic and diluted loss per share (HK cents)		<u>(12.55)</u>	<u>(10.52)</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the six months ended 30 September 2018

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

		30 September 2018	31 March 2018
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	416,225	419,418
Intangible assets	9	33,432	34,286
Exploration and evaluation assets	10	190	190
Interests in associates		—	—
Available-for-sale financial asset		—	—
Equity instrument at fair value through other comprehensive income		—	—
Other asset		1,150	1,150
Prepaid lease payment		630	697
		<u>451,627</u>	<u>455,741</u>
Current assets			
Prepaid lease payment		14	15
Inventories		134,020	107,018
Trade and bills receivables	11	224,535	204,348
Other receivables, prepayments and deposits		70,621	55,180
Financial assets at fair value through profit or loss		76,127	115,037
Amounts due from associates		—	—
Cash and cash equivalents		76,100	83,448
		<u>581,417</u>	<u>565,046</u>
Current liabilities			
Trade payables	12	112,888	108,610
Other payables and accruals		127,965	146,885
Contract liabilities		15,401	—
Tax liabilities		5,614	15,703
Advances from a Director		1,831,769	1,760,438
Other loan		—	9,064
Deferred income		1,421	1,554
		<u>2,095,058</u>	<u>2,042,254</u>
Net current liabilities		<u>(1,513,641)</u>	<u>(1,477,208)</u>
Total assets less current liabilities		<u>(1,062,014)</u>	<u>(1,021,467)</u>

		30 September 2018	31 March 2018
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
Non-current liabilities			
Convertible notes	13	3,238,546	3,019,544
Deferred income		7,571	9,054
		<u>3,246,117</u>	<u>3,028,598</u>
Net liabilities		<u>(4,308,131)</u>	<u>(4,050,065)</u>
Capital and reserves			
Share capital		37,625	37,625
Reserves		<u>(4,345,756)</u>	<u>(4,087,690)</u>
Capital deficiencies attributable to owners of the Company		<u>(4,308,131)</u>	<u>(4,050,065)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

1. BASIS OF PREPARATION

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

Summary of effects arising from initial application of HKFRS 15

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

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

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

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

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

	As reported <i>HK\$'000</i>	Reclassification <i>HK\$'000</i>	Amounts without application of HKFRS 15 <i>HK\$'000</i>
Current liabilities			
Other payables and accruals (<i>Note</i>)	127,965	15,401	143,366
Contract liabilities (<i>Note</i>)	15,401	(15,401)	—
	<u> </u>	<u> </u>	<u> </u>

Note:

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

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

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

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

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

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

Summary of effects arising from initial application of HKFRS 9

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

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

Notes:

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

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

(b) Impairment under ECL model

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

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

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

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

Segment revenue and result

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

For the six months ended 30 September 2018

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

Note:

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

For the six months ended 30 September 2017

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

Note:

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

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

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

4. OTHER GAINS AND LOSSES

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

5. FINANCE COSTS

	Six months ended 30 September 2018 HK\$'000	2017 HK\$'000
Interest on advances from a Director	71,331	65,587
Interest on other loan (<i>Note</i>)	100	235
Effective interest expense on convertible notes (<i>Note 13</i>)	282,586	235,576
	354,017	301,398

Note:

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

6. INCOME TAX CREDIT

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

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

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

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

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

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

7. LOSS BEFORE TAXATION

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

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

8. LOSS PER SHARE

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

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

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

Note:

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

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

Property, Plant and Equipment

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

Intangible Assets

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

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

Recoverable Amount Assessment on Khushuut Related Assets

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

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

10. EXPLORATION AND EVALUATION ASSETS

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

Notes:

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

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

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

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

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

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

- (b) Other represents the expenses incurred for the concession as mentioned in note (a).
- (c) Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for three successive periods of 3 years each and mining licences for two successive periods of 20 years each.

11. TRADE AND BILLS RECEIVABLES

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

Note:

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

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

	30 September 2018 <i>HK\$'000</i>
Balance at 1 April 2018	1,136
Provision for loss allowance	<u>2,290</u>
Balance at 30 September 2018	<u>3,426</u>

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

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

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

12. TRADE PAYABLES

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

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

13. CONVERTIBLE NOTES

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

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

2014 Convertible Notes with maturity date 21 November 2019

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

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

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

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

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

Notes:

- (a) The volatility used in the model was determined by reference to the historical volatility of the Company's share price.
- (b) The option life as at 30 September 2018 was based on the maturity date of the notes.

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

No conversion took place during both periods.

14. CONTINGENT LIABILITIES

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

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

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Company is an investment holding company.

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

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

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

RESULTS ANALYSIS

Revenue

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

Cost of Sales

Cost of sales included mining costs, coal processing costs, transportation costs, costs on disposal of coal refuse and other relevant operating expenses. The cost of sales for the Financial Period was HK\$207.5 million (2017: HK\$121.5 million). Such increase was partly due to the higher sales volume. Besides, the continuous increase in export of coal from Mongolia has intensified the national logistic problem arising from the tight supply of heavy loaded trucks for transportation, causing escalation of the transportation costs.

During the Financial Period, the Group faced 18.5% increase in transportation costs. Furthermore, the Group's Uyench customs bonded yard ("Uyench CBY") became fully operational during the Financial Period and incurred operating costs by around HK\$8.6 million. However, the Uyench CBY has provided significant contribution to improve raw coal shipping logistic from Khushuut to Xinjiang. The cost of sales was divided into cash costs of HK\$202.8 million (2017: HK\$119.1 million) and non-cash costs of HK\$4.7 million (2017: HK\$2.4 million).

Gross Profit

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

Other Gains and Losses

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

Administrative Expenses

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

Changes in Fair Value on Derivative Component of Convertible Notes

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

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

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

operating and capital costs, sales volume, inflation rates and discount rates are particularly important; the determination of the recoverable amount is relatively sensitive to changes in these important assumptions.

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

Impairment Loss on Financial Assets

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

Finance Costs

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

MARKET REVIEW

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

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

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

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

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

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

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

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

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

BUSINESS REVIEW

Coal Sales

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

Coal Production

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

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

Coal Processing

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

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

Customers and Marketing

We had entered into a master coal supply contract for 2018 with our major customer in Xinjiang. The actual sales price and quantity to be delivered were negotiated and mutually agreed from time to time between the parties shortly before delivery during this period.

Notwithstanding the master coal supply contract with our major customer, our production and shipment of coal are closely linked to the market and other conditions and border crossing policies for import and export between China and Mongolia.

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

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

Licences

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

Legal and Political Aspects

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

Liquidity and Financial Resources

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

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

Property, Plant and Equipment

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

Trade and Bills Receivables

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

Other Receivables, Prepayments and Deposits

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

Financial Assets at Fair Value Through Profit or Loss

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

Other Payables and Accruals

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

Contract Liabilities

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

Charge on Group's Assets

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

Gearing Ratio

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

Foreign Exchange

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

Contingent Liabilities

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

OUTLOOK

During the first half of the Year, global economy was optimistic and China's economic performance still recorded a moderate increase. In accordance with NBS, steel industry had been performing well with most industry players reaped satisfactory profits. For the first nine months this year, Chinese steel industry's profit increased by 86% compared with the same period last year according to China Iron and Steel Association. However, against this backdrop, the trade tensions between China and the USA slipped in and have materialized into a full-blown conflict in the latter half of the year. If the trade tensions

between the major powers are not amicably solved, we anticipate that the negative effects will gradually emerge and spread around the globe, rendering investors reluctant in continuing and furthering investments and affecting financial stability.

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

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

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

HUMAN RESOURCES

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

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

During the Financial Period, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Board recognises the importance of maintaining a high standard of corporate governance practice to protect and enhance the benefits of the shareholders. The Board and the management of the Company have collective responsibilities to maintain the interest of the shareholders and the sustainable development of the Group. The Board also believes

that good corporate governance practices can facilitate rapid growth of a company under a healthy governance structure and strengthen the confidence of the shareholders and investors.

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

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

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

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

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

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

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

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTION

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

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

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

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

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

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

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

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

AUDIT COMMITTEE

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

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

By Order of the Board
Mongolia Energy Corporation Limited
Tang Chi Kei
Company Secretary

Hong Kong, 28 November 2018

As at the date of this announcement, the Board comprises seven Directors, including Mr. Lo Lin Shing, Simon, Ms. Yvette Ong and Mr. Lo, Rex Cze Kei as executive Directors, Mr. To Hin Tsun, Gerald as non-executive Director, and Mr. Tsui Hing Chuen, William ^{JP}, Mr. Lau Wai Piu and Mr. Lee Kee Wai, Frank as independent non-executive Directors.