MONGOLIA ENERGY CORPORATION

蒙古能源有限公司

Incorporated in Bermuda with limited liability
Stock Code: 276

INTERIM REPORT 2023

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**"), I hereby present the interim results of Mongolia Energy Corporation Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") for the six months ended 30 September 2023 (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 2,680,600 tonnes (2022: 1,894,300 tonnes) of Run-of-Mine ("**ROM**") coal were produced and approximately 1,048,598 tonnes (2022: 968,800 tonnes) of coal, including clean coking coal, thermal coal and raw coal were sold to our customers during this period.

RESULTS ANALYSIS

Revenue

During the Financial Period, the operation of the Group was running smoothly but the Group's revenue slid 16.6% to HK$1,557.3 million (2022: HK$1,866.2 million) due to the fall in the average coal selling price of our products. During the Financial Period, the Group sold approximately 906,700 tonnes (2022: 826,000 tonnes) of clean coking coal and approximately 141,800 tonnes (2022: 111,900 tonnes) of thermal coal and approximately 98 tonnes (2022: 30,900 tonnes) of raw coal. The average selling prices of clean coking coal, thermal coal and raw coal net of sales tax were approximately HK$1,714.2 (2022: HK$2,224.3), HK$19.3 (2022: HK$64.7) and HK$690.1 (2022: HK$546.8) per tonne respectively.

Cost of Sales

Cost of sales includes mining costs, coal processing costs, transportation costs, costs on disposal of coal refuse and other relevant operating expenses. The cost of sales for the Financial Period was HK$978.5 million (2022: HK$1,074.0 million). It was divided into cash costs of HK$947.0 million (2022: HK$1,032.2 million) and non-cash costs of HK$31.5 million (2022: HK$41.8 million).

Gross Profit

Gross profit ratio for the Financial Period was approximately 37.2% (2022: 42.5%). It was lower than the last corresponding period because of the decrease in the average selling price of clean coking coal.

Administrative expenses

The significant increase in administrative expenses was mainly due to the partial provision of tax penalty. During the Financial Period, MoEnCo received a notice of tax finding from the Mongolia General Tax Office ("**GTO**"). Under the said notice, the GTO decided to impose additional tax and penalty after a routine periodic tax audit (the "**Tax Audit**") on MoEnCo covering the tax period between 2017 and 2020. For details, please refer to the Company's announcements dated 21 August 2023 and 7 November 2023.

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$326.3 million was recognized in the Financial Period (2022: loss of HK$418.6 million). The major inputs into the binomial valuation model to work out the valuation of the conversion option derivative for the Financial Period were stated in Note 18(a) to the condensed consolidated financial statements.

Recoverable Amount Assessment on Khushuut Related Assets (the "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 independent valuer had considered three generally accepted valuation approaches, namely the market, cost and income approaches. In order to select the most appropriate approach, the independent valuer considered the purpose of valuation and the resulting basis of value as well as availability of information and reliability of information related to the Mine Asset to perform this analysis. Hong Kong Accounting Standard 36 defines value in use as the present value of the future cash flows expected to be derived from an asset or cash-generating unit. As such, the value in use of the Mine Assets could only be developed through the application of an income approach technique known as the discounted cash flow model. This approach is adopted consistently and there was no change of approach in the Financial Period. The recoverable amount of the Mine Assets is based on the discounted cash flow model that incorporates best estimates made by the management of the Group on price trend of coking coal, coking coal grades, production capacity and rates, future capital expenditure, inflation rate and production costs over the mine life of the Khushuut mine, etc. The cash flow projection covers the expected life of the whole operation. Major assumptions including selling prices trend, operating and capital costs, sales volume, inflation rates and discount rate are particularly important; and the determination of the recoverable amount is relatively sensitive to changes in these important assumptions.

Key changes in assumptions used in the discounted cash flow model as at 30 September 2023 and 31 March 2023 are set out below:

	Note	30 September 2023	31 March 2023
Discount rate (post-tax)	(a)	21.31%	21.33%
Average current coking coal price per tonne	(b)	US$183	US$244
Inflation rate	(c)	1.31% to 2.2%	2.00%
Predicted average annual growth rate of the coking coal price for the forthcoming four-year period since period/year ended	(d)	-6.63%	-6.97%

Notes:

(a) *The discount rate is a post-tax discount rate and is derived from the Group's 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 the 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 China 10-Year government bond as at 30 September 2023. 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 2023 to reflect current market condition;*

(c) *Inflation rate was updated by reference to external market research data and applied to overall production costs and general expenses over the mine life in the discounted cash flow model; and*

(d) *The average annual growth rate was updated based on the latest publicly available market data as at 30 September 2023. 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 amounted to HK$660.9 million was made in the Financial Period (2022: HK$548.6 million). The key contributors to the decrease in recoverable amount on Mine Assets were mainly due to approximately 25% drop in average current coking coal price.

Impairment Losses on Financial Assets

According to the Group's accounting policies, the Group recognizes a loss allowance for expected credit losses on trade and bills receivable. The increase in trade and bills receivables at the end of the Financial Period accounted for the significant increase in the impairment losses.

Finance Costs

The major components in finance costs were the effective interest expenses on convertible notes, interest charge on advances from a Director and a loan note. The interest charge on the debt component of the convertible notes issued by the Company was calculated at an effective interest rate of 14.26% per annum (2022: 14.26%). The interest charge on advances from a Director was calculated at the Hong Kong prime rate plus 3% per annum, which was same as previous financial periods. The interest of the loan note was charged at an effective interest rate of 22.37% per annum (2022: 22.37%).

Income Tax Expenses

The significant increase in income tax expenses was mainly due to the partial provision of income tax under the Tax Audit. For details, please refer to the Company's announcements dated 21 August 2023 and 7 November 2023.

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 proved resilient in the first half of 2023, hitting 2.8% growth after the recovery from COVID-19. Growth in Asia was particularly strong during this period, averaging at 5.2% above regional potential. China attained robust recovery in the first six months of 2023 since the lifting of most COVID-19 restrictions, with a gross domestic product ("**GDP**") growth of 5.5%, which exceeded the annual target set. The robust household consumption, high growth of infrastructure investment, and surge in export were the keys to economic recovery in the first quarter while significant recovery in areas, such as services and consumption contributed to the continued growth of GDP in China in the second quarter of 2023.

The global crude steel production was 1,406 million tonnes for the first nine months this year, up 0.1% slightly year-on-year according to the recent data of the World Steel Association. However, global demand was weak and the price was unstable due to slowdown of global economic growth, particularly in manufacturing and construction sectors. China remained the biggest crude steel producing country in the world during this period, with 795 million tonnes of steel output. As the steel price plummeted in the first half of 2023, most steel producers in China reported losses.

In respect of coal, global coal demand reached an all-time high to 8.3 billion tonnes last year, according to the coal market update from the International Energy Agency ("**IEA**"). China, India and Southeast Asian countries are the leading coal consumers in the world. The IEA also expects global coal production to grow further this year, driven by an expected strong ramp-up of production in China, India and Indonesia in the first six months of 2023. According to the data from the National Bureau of Statistics of China ("**NBS**"), China produced 3.4 billion tonnes of raw coal from January to September of 2023, a year-on-year increase of 3%. Supplementing domestic coal production, China imported 350 million tonnes of coal during the same period, a year-on-year increase of 73.1%.

The combined profit of China's enterprises in coal mining and washing industry in the first nine months of 2023 were RMB578.3 billion, falling 26.5% year-on-year. The results were mainly affected by the surge in electricity costs, policy control and fall in market demand.

According to the data of General Administration of Customs of China ("**GAC**"), coking coal import increased generally in the first nine months this year, up to 73.15 million tonnes and 61% increase year-on-year. The increase in coking coal import was mainly contributed by the influx of Mongolian coal and the Russian coal, and also the competitive import coking coal price. Mongolia accounted for 52% of the total coking coal imports to China. Mongolia has become China's largest coking coal supplier, followed by Russia, Canada, the United States and India. Up to September of 2023, China had imported 38 million tonnes of coking coal from Mongolia.

According to the National Statistics Office of Mongolia, Mongolia produced 55.4 million tonnes of coal in the first nine months of 2023, and 46.8 million tonnes had been exported. Based on the current trend, it is estimated that over 50 million tonnes of coal would be exported by the end of 2023.

BUSINESS REVIEW

Coal Sales

We recorded a revenue of HK$1,557.3 million from the sales of coking coal, thermal coal and raw coal to our customers in China and Mongolia in the Financial Period, a fall of 16.6% compared with the previous financial period.

Coal Production

During the Financial Period, approximately 8,927,100 bank cubic meters ("**BCM**") of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2022: 8,814,200 BCM). Production of ROM coking coal and thermal coal were approximately 1,582,200 tonnes and 1,098,400 tonnes respectively (ROM coking coal and thermal coal in 2022: 1,429,000 tonnes and 465,300 tonnes respectively).

Coal Processing

During the Financial Period, approximately 950,100 tonnes of ROM coal (2022: 706,000 tonnes) were processed by the dry coal processing plant, producing approximately 784,400 tonnes of raw coking coal (2022: 597,400 tonnes). The average recovery rate was 82.6%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customers.

In Xinjiang, approximately 1,402,900 tonnes of raw coking coal (2022: 1,288,800 tonnes) were processed by the washing plant, producing approximately 987,700 tonnes of clean coking coal (2022: 900,100 tonnes). The average recovery rate was 70.4%.

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 1,397,900 tonnes of raw coking coal were shipped from Mongolia to Xinjiang.

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 506,200 tonnes of clean coking coal to our largest customer and it accounted for approximately 56.9% 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. We will closely monitor the developments and adjust our operation schedule from time to time.

Apart from our largest customer, we had eight other customers in Xinjiang and two customers in other areas of China 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 in other area not within Khushuut; and one exploration licence. Please refer to the section of the recent annual report headed "**EXPLORATION AND MINING CONCESSIONS OF THE GROUP**".

Legal and Political Aspects

In 2022, Mongolia witnessed a remarkable economic rebound, with a growth rate of 4.8%. The resurgence was attributed to the reopening of China's economy, proactive measures taken by the Mongolian government to boost exports, and increased financing inflows from private sector. Furthermore, headline inflation, which peaked in mid-2022, gradually declined to 10.6% in June 2023, was primarily due to falling global prices. Core inflation also began to stabilize. In light of the improving economic situation, a supplementary budget for 2023 introducing large and permanent increases in wages, benefits, and pensions was passed in June 2023. Strong mining sector activity and the fiscal expansion are expected to help sustain robust growth in 2023.

On 31 May 2023, the Mongolian Parliament passed a significant constitutional reform, increasing the number of members in the legislative body from 76 to 126. The primary objective of this constitutional reform is to enhance legislators' service to their constituencies by reducing the average number of voters represented by each lawmaker. The newly adopted reform introduces a mixed electoral system, where 78 members of the State Great Khural will be elected through a majority vote in dedicated constituencies, while the remaining 48 members will be elected through proportional representation.

Additionally, another constitutional amendment empowers Mongolia's Constitutional Court to make final decisions on citizen petitions alleging a breach of constitutional civil rights and freedoms.

The Mongolian government has officially declared 2023 as the "Year to Combat Corruption" and has initiated the implementation of the "Five W Operation", which constitute a multifaceted initiative to address corruption within the country. These operations emphasize the core principles of transparency, accountability, and active citizen engagement. Ongoing discussions are focusing on a set of draft laws related to the legal status of whistleblowers, regulation of public and private interests and the prevention of conflicts of interest in public service, in addition to the National Anti-Corruption Program.

To attract foreign investment, the Mongolian government is committed to enhancing the legal protection of foreign investors. A revision of the Law on Investment, proposed in June 2023, is designed to provide investors with essential information, simplify business registration processes, and to ensure efficient compliance resolution. The proposed amendments address critical issues such as removing investment-related prohibitions and restrictions, enhancing protection through international arbitration, and streamlining government procedures, all with the goal of creating a more attractive and investor-friendly climate while reducing bureaucratic obstacles.

The draft law also outlines the creation of a Council for the Protection of Investors' Rights under the Ministry of Economic Development, which will play a pivotal role in safeguarding the rights and interests of foreign investors operating in Mongolia. Its functions include ensuring legal protection, resolving investment disputes, advocating for investor-friendly policies, providing information and guidance, streamlining regulatory processes, monitoring policy implementation, and collaborating with relevant stakeholders.

Furthermore, the Minister of Justice and Internal Affairs has established a dedicated working group to receive and address complaints related to the implementation of the law, while the government will hold meetings quarterly to address investors' concerns and complaints.

The Law on Public-Private Partnership, along with its accompanying handbook, will replace the previous Law on Concession and is set to take effect by the end of this year. This new law clarifies the purpose, scope, principles, terms, and understanding of public-private partnerships and distinctly defines the legal framework for implementing major infrastructure, social, and economic goals of the country. It also outlines the plenary powers and functions of public institutions in public-private partnerships, with a focus on implementing public infrastructure and public service functions through private investment on mutually beneficial terms. The new law creates a legal environment for implementing financial and budget control by improving coordination between organizations involved in partnership projects.

The Parliament has also approved the Law on Mining Products Exchange, which became effective on 1 July 2023. The law aims to organize open, transparent, and fair trading of mining products, establish real market prices, and increase the industry's contribution to the country's economic growth. Before the Law on Mining Products Exchange came into force, coal trading was being organized through the Mongolian Stock Exchange JSC.

On 7 July 2023, the Parliament of Mongolia passed the General Law on Social Insurance which will replace the existing Law on Social Insurance (1994) effective from 1 January 2024. The law aims to improve management and structure of the pension and social insurance system as well as to regulate late payments and resubmission of reports, etc. In addition, Mongolian Tax Authority (MTA) has implemented a new functionality in its electronic tax system which allows, starting June 2023, taxpayers to view their tax risk assessment and their tax scoring.

FINANCIAL REVIEW

Liquidity and Financial Resources

In preparing the condensed consolidated financial statements, the Directors have given careful consideration of the future liquidity of the Group. While recognising that the Group had net liabilities of HK$4,915.0 million and net current liabilities of approximately HK$747.9 million as at 30 September 2023, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future given that: (1) Mr. Lo, a substantial shareholder and chairman of the Company who has significant influence over the Group, has provided facilities amounting to HK$1,900.0 million. The balance of the unutilised facilities of HK$931.6 million as at 30 September 2023 remains valid until 31 March 2025; and (2) Mr. Lo does not intend to demand immediate repayment of his advances to the Company. The borrowings of the Group as at 30 September 2023 were the convertible notes, loan note and advances from Mr. Lo in aggregate of HK$5,823.2 million (31 March 2023: HK$5,962.6 million). Advances from Mr. Lo are classified as current liabilities while the convertible notes and loan note are classified as non-current liabilities.

As at 30 September 2023, the cash and bank balances of the Group were HK$75.6 million (31 March 2023: HK$60.3 million) and the liquidity ratio was 0.76 (31 March 2023: 0.68).

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$604.6 million (2022: impairment loss of HK$493.7 million). During the Financial Period, the Group had incurred capital expenditures of approximately HK$43.7 million (2022: HK$89.3 million).

Trade and Bills Receivables

The Group allows a credit period of 30 to 60 days for trade receivables and the maturity dates for bills receivables should be within 180 days or less. As at 30 September 2023, the majority of the trade receivables were within our credit period. For the bills receivables, they were non-interest bearing bank acceptance bills with settlement being guaranteed by the licensed banks in the PRC.

Other Receivables, Prepayments and Deposits

It mainly comprised prepaid value added tax of HK$236.3 million (31 March 2023: HK$197.3 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 Mongolian tax authority on our Mongolian subsidiary.

Financial Assets at Fair Value Through Profit or Loss

As at 30 September 2023, the fair value of the financial assets at fair value through profit or loss was HK$46.5 million (31 March 2023: HK$51.6 million), which was approximately 1.6% (31 March 2023: 1.8%) of the total assets of the Group. It represents the Group's interest in Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "**Jade Bird**"), a company listed in Hong Kong. The principal activities of Jade Bird and its subsidiaries are engaging in the technology research, development, marketing and sale of embedded system products and related products in security and fire alarm systems. The Group's investment is approximately 5.58% (31 March 2023: 5.58%) of the total issued share capital of Jade Bird. During the Financial Period, the Group recorded a dividend income from Jade Bird amounted to approximately HK$6.2 million.

Other Payables and Accruals

The major components were being unsettled royalty tax in Mongolia, provision for additional tax and penalty in respect of tax dispute with Mongolia tax office and liabilities related to discounted bills receivables not yet matured.

Gearing

As at 30 September 2023, the gearing ratio of the Group was 2.1 (31 March 2023: 2.1) 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

The Group did not have any material contingent liabilities as at 30 September 2023 (31 March 2023: Nil).

OUTLOOK

In the second half of 2023, uncertainties such as the continuing Russia-Ukraine war, the Palestinian-Israeli conflict, US-China tensions, inflation and high interest rates are still weighing the global economy. The recovery of global economy after the Covid-19 pandemic is much slower than expected. With the weakening of the business and consumer sentiment, despite the growth of 2.8% in the first half of 2023, it is anticipated that the global economic growth will be slackened up to the end of the year.

Growth in the first half of the year was strong in Asia, much of the lift was attributed to China's reopening and the end of its zero-COVID policy. However, the real property crisis and fall of export have plagued China's economy from advancing further in the second half of 2023. Major banks cut China's 2023 GDP estimate to 5.1% from their previous forecast of 5.5%. According to the latest released data from the NBS, China recorded a GDP growth of 5.2% in the first three quarters. China's economy expanded by 4.9% in the July to September period, and the figure was higher than the median forecasted 4.5%. The better-than-expected third quarter growth was attributed to increased consumer spending and industrial production. It also demonstrates China's economy sustained the momentum of recovery and improvement with solid progress.

In respect of the steel industry, the World Steel Association predicts the growth of global steel demand at 1.8% this year and 1.9% in 2024. Steel demand in China has been affected by its property market crisis. For a long time, the real estate industry has been a pillar of China's economic growth, followed by construction, and both account for a major part in the GDP. Fortunately, despite the weak internal steel market, steel exports from China up to August from the beginning of this year acted as a major driver for supporting steel production. This is due to the competitive Chinese steel prices, coupled with efforts to boost the "Belt and Road" projects. In addition, a decent demand push from the infrastructure and manufacturing sectors has also contributed to keeping China's steel production at elevated levels. In the first six months of 2023, crude steel production of China was increased by 1% year-on-year. Under the government's efforts to boost infrastructure and consumption, it is expected that the domestic steel demand of China is unlikely to have any significant drop this year.

In the first half of 2023, China coal prices retreated sharply from the 2022 levels. In respect of coking coal, its prices fell substantially due to the surge of coking coal import from other countries such as Mongolia and Australia, and the weak domestic demand of China. In the second half of 2023, we consider the supply of coking coal to China would be stable, but the price is unlikely to have an incentive of going upward unless there is a drastic improvement in its overall economy.

China is the major export market for Mongolian. Mongolia exports most of its coal to China, up to 99% of its coal exports. Mongolia exported 46.52 million tonnes of coal so far to China over January to September in 2023. Mongolia aims to achieve an export target of coal at 50 million tonnes this year. For 2024, Mongolia has set its goal of coal exports at 60 million tonnes.

As recently reported, MoEnCo, our major operating subsidiary in Mongolia, has been subject to tax audit for the tax period from 2017 to 2020. As a result of the tax audit, the GTO has notified MoEnCo its findings that the total tax payables including additional taxes and penalties for this period are approximately US$52.1 million. The major issue involved is transfer pricing which accounted for the largest trunk of additional taxes and penalties. MoEnCo has filed a notice of appeal to the Mongolia Tax Council, and also engaged experienced professional teams for the conduct of this case. We will consider making our application to the Mongolian court if our appeal to the Mongolia Tax Council is unsuccessful. Based on the professional advice and our review and assessment, the Company has made a provision of approximately HK$249.6 million for the present tax dispute.

As the quantity of coal produced and processed have increased in folds since 2015, we have planned to build a new dry coal processing plant on the mine site, with a processing capacity of five million tonnes per annum to replace the existing set up of a maximum of two million tonnes. We have invited tender for the preliminary design of the new set up and would soon engage the contractor for the construction process.

Under the current unpredictable international economic and political backdrop, the road ahead is full of challenges. We will continue to adopt a prudent and proactive approach 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, 27 November 2023

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the Financial Period (2022: Nil).

DIRECTORS' INTERESTS

As at 30 September 2023, the interests or short positions of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of securities on the Stock Exchange (the "**Listing Rules**") were as follows:

Long positions in the shares and underlying shares of the Company

Name of Directors	Number of shares			Number of underlying shares		Total interests	Percentage of shareholding
	Personal interests	Spouse interests	Corporate interests	Personal Interests pursuant to share options	Corporate interests		
Mr. Lo Lin Shing, Simon ("**Mr. Lo**")	124,000	43,750	30,151,957 (Note)	1,800,000	602,204,563 (Note)	634,324,270	337.18%
Ms. Yvette Ong	27,250	–	–	1,800,000	–	1,827,250	0.97%
Mr. Lo, Rex Cze Kei	–	–	–	1,500,000	–	1,500,000	0.80%
Mr. Lo, Chris Cze Wai	–	–	–	1,500,000	–	1,500,000	0.80%
Mr. To Hin Tsun, Gerald	135,000	–	–	500,000	–	635,000	0.34%
Mr. Lo, James Cze Chung	–	–	–	500,000	–	500,000	0.27%
Mr. Tsui Hing Chuen, William$_{JP}$	12,500	–	–	500,000	–	512,500	0.27%
Mr. Lau Wai Piu	5,030	–	–	500,000	–	505,030	0.27%
Mr. Lee Kee Wai, Frank	–	–	–	500,000	–	500,000	0.27%

*Note: Golden Infinity Co., Ltd. ("**Golden Infinity**"), a company wholly-owned by Mr. Lo.*

Save as disclosed above and in the section headed "SHARE OPTION SCHEMES", as at 30 September 2023, 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 2023, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

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

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

Notes:

1. *Chow Tai Fook (Holding) Limited held 99.8% interest in Chow Tai Fook Nominee Limited. 81.03% interest of Chow Tai Fook (Holding) Limited was held by Chow Tai Fook Capital Limited in which it was held as to 48.98% by Cheng Yu Tung Family (Holdings) Limited and as to 46.65% by Cheng Yu Tung Family (Holdings II) Limited. By virtue of the SFO, each of Cheng Yu Tung Family (Holdings II) Limited, Cheng Yu Tung Family (Holdings) Limited, Chow Tai Fook Capital Limited and Chow Tai Fook (Holding) Limited was deemed to be interested in 2,698,101,424 shares held by Chow Tai Fook Nominee Limited.*

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

3. *Ms. Ku Ming Mei, Rouisa, the spouse of Mr. Lo, was deemed to be interested in 634,280,520 shares owned by Mr. Lo beneficially, under the SFO.*

4. *Dr. Cheng Kar Shun was interested in the entire issued share capital of Dragon Noble Group Limited ("**Dragon**"). By virtue of the SFO, he was deemed to be interested in 7,889,250 shares held by Dragon and 1,977,500 shares were owned by Ms. Ip Mei Hing (the spouse of Dr. Cheng Kar Shun) through her controlled corporation Brighton Management Limited.*

Save as disclosed above and those disclosed under "**DIRECTORS' INTERESTS**", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 30 September 2023.

SHARE OPTION SCHEMES

The share option scheme adopted by the Company on 30 August 2012 (the "**2012 Option Scheme**") was expired on 29 August 2022. 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**"). No options had been granted to the Directors, employees and other eligible participants of the Company under the 2022 Option Scheme during the Financial Period.

Details of the movements in outstanding share options, which have been granted under the 2012 Option Scheme, during the Financial Period are as follows:

					Number of shares subject to options				
Name or category of participants	Date of Grant	Exercise Price HK$	Exercise period	Vesting Period	As at 1 April 2023	Granted during the period	Lapsed during the period	Exercised during the period	As at 30 September 2023
Mr. Lo	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	1,800,000	–	–	–	1,800,000
Ms. Yvette Ong	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	1,800,000	–	–	–	1,800,000
Mr. Lo, Rex Cze Kei	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	1,500,000	–	–	–	1,500,000
Mr. Lo, Chris Cze Wai	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	1,500,000	–	–	–	1,500,000
Mr. To Hin Tsun, Gerald	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000	–	–	–	500,000
Mr. Lo, James Cze Chung	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000	–	–	–	500,000
Mr. Tsui Hing Chuen, William JP	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000	–	–	–	500,000
Mr. Lau Wai Piu	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000	–	–	–	500,000
Mr. Lee Kee Wai, Frank	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	500,000	–	–	–	500,000
Employees in aggregate (including a director of certain subsidiaries)	18-01-2021	1.310	18-01-2021 to 17-01-2026	N/A	7,200,000	–	–	–	7,200,000
TOTAL					16,300,000	–	–	–	16,300,000

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

Neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the Company's listed securities during the Financial Period.

CORPORATE GOVERNANCE

The Board recognises the importance of maintaining a high standard of corporate governance practice to protect and enhance the benefits of the shareholders. The Board and the management of the Company have collective responsibilities to maintain the interest of the shareholders and the sustainable development of the Group. The Board also believes that good corporate governance practices can facilitate growth of a company under a healthy governance structure and strengthen the confidence of the shareholders and investors.

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

i. Code provision 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 2023 AGM. The Managing Director of the Company took the chair of the 2023 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 2023 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 in Appendix 10 to the Listing Rules. The Code is sent to each Director on his/her initial appointment and from time to time when the same is amended or restated.

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

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

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

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

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

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

Having made specific enquiry by the Company, all the Directors confirmed that they had complied with the required standards as set out in the Model Code and the Code regarding directors' securities transactions during the Financial Period. Besides, no incident of non-compliance by the relevant employees was noted by the Company for the six months ended 30 September 2023.

HUMAN RESOURCES

As at 30 September 2023, excluding site and construction workers directly employed by our contractors, the Group employed 812 full-time employees in Hong Kong, Mongolia, and the PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on a periodic basis. Apart from the retirement scheme, year-end bonus, and share options are awarded to the employees according to performance of the Group, assessment of individual performance, and industry practice. Appropriate training programs are also offered for staff training and development.

AUDIT COMMITTEE

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

The Audit Committee had reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2023.

BOARD OF DIRECTORS

As at the date of this report, the board of directors of the Company comprises the following members:

Executive Directors

Mr. Lo Lin Shing, Simon *(Chairman)*
Ms. Yvette Ong *(Managing Director)*
Mr. Lo, Rex Cze Kei
Mr. Lo, Chris Cze Wai

Non-executive Directors

Mr. To Hin Tsun, Gerald
Mr. Lo, James Cze Chung

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 2023

		Six months ended 30 September	
	Notes	**2023** **HK$'000** **(unaudited)**	**2022** **HK$'000** **(unaudited)**
Revenue	*3*	**1,557,257**	1,866,241
Cost of sales		**(978,525)**	(1,073,965)
Gross profit		**578,732**	792,276
Other income	*4*	**9,981**	9,848
Other gains and losses	*5*	**(16,676)**	(16,748)
Administrative expenses		**(166,869)**	(88,803)
Changes in fair value on derivative component of convertible notes	*18(a)*	**326,267**	(418,619)
Impairment losses on property, plant and equipment		**(604,642)**	(493,691)
Impairment losses on right-of-use assets		**(517)**	(496)
Impairment losses on intangible assets		**(55,784)**	(54,410)
Impairment losses on financial assets		**(2,201)**	(542)
Finance costs	*6*	**(339,164)**	(293,491)
Loss before taxation	*7*	**(270,873)**	(564,676)
Income tax expense	*8*	**(275,965)**	(181,273)
Loss for the period attributable to owners of the Company		**(546,838)**	(745,949)
Loss per share attributable to ordinary equity holders of the Company	*10*		
– basic and diluted loss per share (HK$)		**(2.91)**	(3.97)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2023

	Six months ended 30 September	
	2023 **HK$'000** **(unaudited)**	**2022** **HK$'000** **(unaudited)**
Loss for the period	**(546,838)**	(745,949)
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of group companies	**(33,069)**	(31,302)
– Fair value changes on debt instruments at fair value through other comprehensive income ("**FVTOCI**")	**1,790**	790
Other comprehensive expense for the period	**(31,279)**	(30,512)
Total comprehensive expense for the period attributable to owners of the Company	**(578,117)**	(776,461)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2023

	Notes	30 September 2023 HK$'000 (unaudited)	31 March 2023 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*11*	426,757	1,018,279
Right-of-use assets	*11*	11,307	8,613
Intangible assets	*11*	35,080	93,087
Exploration and evaluation assets	*12*	1,689	1,689
Interest in an associate		–	–
Deferred tax assets		24,266	40,166
		499,099	1,161,834
Current assets			
Trade and bills receivables	*13*	1,594,814	953,484
Inventories	*14*	329,605	303,382
Other receivables, prepayments and deposits	*15*	292,542	254,767
Prepaid taxation		80	15,498
Financial asset at fair value through profit or loss ("**FVTPL**")		46,522	51,598
Amount due from an associate		–	–
Cash and cash equivalents		75,638	60,264
		2,339,201	1,638,993
Current liabilities			
Trade payables	*16*	337,017	252,590
Other payables and accruals	*17*	1,297,140	782,010
Contract liabilities		10,522	67,967
Tax liabilities		207,922	14,712
Advances from a Director	*23(a)*	1,227,149	1,302,017
Lease liabilities		5,875	3,056
Deferred income		1,498	1,591
		3,087,123	2,423,943
Net current liabilities		(747,922)	(784,950)
Total assets less current liabilities		(248,823)	376,884

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2023

	Notes	30 September 2023 HK$'000 (unaudited)	31 March 2023 HK$'000 (audited)
Non-current liabilities			
Convertible notes	*18(a)*	4,071,420	4,186,443
Loan note	*18(b)*	524,652	474,140
Deferred income		1,222	2,093
Deferred tax liabilities		17,831	18,931
Lease liabilities		5,189	4,751
Provision for rehabilitation		45,826	27,372
		4,666,140	4,713,730
Net liabilities		(4,914,963)	(4,336,846)
Financed by:			
Capital and reserves			
Share capital	*19*	3,763	3,763
Reserves		(4,918,726)	(4,340,609)
Capital deficiencies attributable to owners of the Company		(4,914,963)	(4,336,846)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2023

	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 2022 (audited)	3,763	33,454	24,569	41,654	1,089	334,220	(3,151,141)	(2,712,392)
Loss for the period	–	–	–	–	–	–	(745,949)	(745,949)
Other comprehensive income (expense)								
Changes in fair value of debt instruments at FVTOCI	–	–	–	–	790	–	–	790
Exchange differences arising on translation	–	–	(31,302)	–	–	–	–	(31,302)
Total comprehensive income (expense) for the period	–	–	(31,302)	–	790	–	(745,949)	(776,461)
Share options lapsed	–	(21,288)	–	–	–	–	21,288	–
At 30 September 2022 (unaudited)	3,763	12,166	(6,733)	41,654	1,879	334,220	(3,875,802)	(3,488,853)
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)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2023

	Six months ended 30 September	
	2023 **HK$'000** **(unaudited)**	**2022** **HK$'000** **(unaudited)**
Net cash from operating activities	193,760	395,142
Net cash used in investing activities:		
Purchases of property, plant and equipment	(42,920)	(87,256)
Other investing cash flows	117	(2,123)
	(42,803)	(89,379)
Net cash used in financing activities:		
Advance from a Director	–	48,754
Repayment to a Director	(130,200)	(314,230)
Repayment to bank loans	–	(3,438)
Repayment of lease liabilities	(3,386)	(63,481)
	(133,586)	(332,395)
Net increase (decrease) in cash and cash equivalents	17,371	(26,632)
Cash and cash equivalents at beginning of the period	60,264	63,906
Effect of exchange rate changes on the balance of cash held in foreign currencies	(1,997)	(5,582)
Cash and cash equivalents at end of the period	75,638	31,692

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

1. BASIS OF PREPARATION

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

In preparing the condensed consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration to the future liquidity of the Group. The Directors have reviewed the Group's cash flow projections prepared by the management. The cash flow projections cover a period of 12 months from 30 September 2023. 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. Also, Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and being the Chairman and Director of the Company, has provided facilities amounting to HK$1,900.0 million by way of advances to the Group. As at 30 September 2023, advances from a Director of HK$1,227.1 million comprised principal amount and accrued interest of HK$968.4 million and HK$258.7 million respectively. Excluding the accrued interest of HK$258.7 million, the balance of the unutilised facilities of HK$931.6 million remains valid until 31 March 2025 and 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 and the repayment will not affect the Group's liquidity position.

While recognising that the Group had net liabilities of approximately HK$4,915.0 million and had net current liabilities of approximately HK$747.9 million as at 30 September 2023 and incurred a loss of approximately HK$546.8 million for the period then ended, the Directors are of the opinion that, taking into account of the finance from Mr. Lo and the internally generated funds, the Group will be able to meet its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2023 are the same as those applied in the preparation of the Group's annual financial statements for the year ended 31 March 2023.

Application of amendments to HKFRSs

The Group has adopted the following new and amendments to HKFRSs for the first time for the current period's condensed consolidated financial statements:

HKFRS 17	Insurance Contracts
Amendments to HKFRS 17	Insurance Contracts
Amendments to HKFRS 17	Initial application of HKFRS 17 and HKFRS 9 – Comparative Information
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Income taxes: Deferred tax related to assets and liabilities arising from a single transaction
Amendments to HKAS 12	Income taxes: International tax reform – Pillar Two model rules

The application of the above new and amendments to HKFRSs have no material impact on the Group's condensed consolidated financial statements.

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 2023

	Coal mining HK$'000	Total HK$'000
Segment revenue	1,557,257	1,557,257
Segment loss	(257,923)	(257,923)
Unallocated expenses *(Note)*		(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

3. REVENUE AND SEGMENT INFORMATION (Continued)

For the six months ended 30 September 2022

	Coal mining HK$'000	Total HK$'000
Segment revenue	1,866,241	1,866,241
Segment profit	191,296	191,296
Unallocated expenses *(Note)*		(23,231)
Other gains and losses		(22,940)
Changes in fair value on derivative component of convertible notes		(418,619)
Finance costs		(291,182)
Loss before taxation		(564,676)
Timing of revenue recognition		
Goods transferred at a point in time		1,861,936
Services transferred over time		4,305
		1,866,241

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 2023 HK$'000	31 March 2023 HK$'000
Coal mining	2,735,508	2,710,055

4. OTHER INCOME

	Six months ended 30 September	
	2023	2022
	HK$'000	HK$'000
Interest income	365	766
Government grants	803	944
Dividend income	6,178	–
Sundry income	2,635	8,138
	9,981	9,848

5. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2023	2022
	HK$'000	HK$'000
Changes in fair value on financial asset at FVTPL	(5,076)	(10,996)
Gain on disposal of property, plant and equipment	69	–
Loss on write off of property, plant and equipment	(114)	–
Net exchange loss	(11,555)	(5,752)
	(16,676)	(16,748)

6. FINANCE COSTS

	Six months ended 30 September	
	2023	**2022**
	HK$'000	**HK$'000**
Interest on advances from a Director *(Note 23(a))*	55,332	64,887
Interest on lease liabilities	455	211
Interest on bank borrowing	–	1,076
Effective interest expense on convertible notes *(Note 18(a))*	211,244	184,890
Effective interest expense on loan note *(Note 23(c)(ii))*	50,512	41,277
Effective interest expense on provision for rehabilitation	21,621	1,150
	339,164	293,491

7. LOSS BEFORE TAXATION

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

	Six months ended 30 September	
	2023	**2022**
	HK$'000	**HK$'000**
Employee benefit expenses, including Directors' emoluments (net of reimbursement from a related party) *(Note 23(d))*	66,897	72,703
Less: employee benefit expenses capitalised in inventories	(30,074)	(34,545)
	36,823	38,158
Depreciation of property, plant and equipment	26,809	37,282
Depreciation of right-of-use assets	2,925	3,212
Amortisation of intangible assets	2,563	6,007

8. INCOME TAX EXPENSE

	Six months ended 30 September	
	2023	**2022**
	HK$'000	**HK$'000**
Current tax:		
Withholding tax	**1,236**	–
PRC Enterprise Income Tax ("**EIT**")	**44,039**	38,316
Mongolian corporate income tax	**49,740**	113,375
	95,015	151,691
Under (over) provision in prior periods:		
PRC EIT	**(2,043)**	(1,364)
Mongolian corporate income tax *(Note)*	**167,511**	–
Deferred taxation	**15,482**	30,946
	275,965	181,273

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. One of the Group's subsidiaries, 新疆蒙科能源科技有限公司, is entitled to enjoy a preferential income tax rate of 15%, and will continue to benefit from this preferential income tax policy until 31 December 2030 under the "Tax incentives of Western Development Policy".

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

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

Note:

The significant increase in income tax expenses was mainly due to the partial provision of income tax under the Tax Audit. For details, please refer to the Company's announcements dated 21 August 2023 and 7 November 2023.

9. DIVIDENDS

No dividends was paid, declared or proposed by the Company during the reporting period (2022: Nil). The Directors do not recommend the payment of an interim dividend.

10. LOSS PER SHARE

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

	Six months ended 30 September	
	2023 HK$'000	**2022** HK$'000
Losses		
Loss attributable to ordinary equity holders of the Company, as used in the calculation of basic loss per share	**(546,838)**	(745,949)
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	**(546,838)**	(745,949)

10. LOSS PER SHARE (Continued)

	Six months ended 30 September	
	2023	2022
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basis loss per share	188,126	188,126
Effect of dilutive potential ordinary shares *(Note)*:		
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 2023 and 2022 did not assume the exercise of share options and the conversion of the Company's outstanding convertible notes since assuming the exercise of the share options or the conversion of the convertible notes would result in a decrease in loss per share.

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	
	2023	2022
	HK$'000	HK$'000
Mining structures	35,757	62,634
Construction in progress	792	20,047
Computer equipment	513	392
Furniture, fixtures and office equipment	309	104
Plant, machinery and other equipment	5,177	3,684
Motor vehicles	1,190	2,395
	43,738	89,256

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

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 2023, of which the recoverable amount determined by the Independent Valuer was lower than their carrying values, and an impairment loss amounting to HK$660,943,000 (2022: HK$548,597,000) was recognised in the condensed consolidated statement of profit or loss for the period ended 30 September 2023.

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 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

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

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

The reason for such an impairment loss being recognised in profit or loss for the period ended 30 September 2023 was mainly due to the changes in pre-tax discount rate and the average current coking coal price per tonne (2022: the changes in pre-tax discount rate, production and sales volume of coking coal and estimated coking coal price for the forthcoming four-year period). The above changes have had a significant impact on the value in use assessment performed by the Directors in both periods with the cash flows expected to be received.

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 2022	151	1,408	1,559
Additions	–	130	130
At 31 March 2023	**151**	**1,538**	**1,689**
Additions	**–**	**–**	**–**
At 30 September 2023	**151**	**1,538**	**1,689**

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.*

13. TRADE AND BILLS RECEIVABLES

	30 September 2023 HK$'000	31 March 2023 HK$'000
Trade receivables	304,092	212,891
Bills receivables	1,291,148	740,819
	1,595,240	953,710
Less: allowance for credit losses	(426)	(226)
	1,594,814	953,484

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 receivables and bills receivables net of allowance for credit losses based on the date of revenue recognition:

	30 September 2023 HK$'000	31 March 2023 HK$'000
1 to 30 days	146,213	336,131
31 to 60 days	154,231	195,295
61 to 90 days	153,675	76,400
Over 90 days	1,140,695	345,658
	1,594,814	953,484

13. TRADE AND BILLS RECEIVABLES (Continued)

Transferred financial assets that are not derecognised in their entirety

At 30 September 2023, the Group endorsed certain bills receivables accepted by banks in the PRC (the "**Endorsed Bills**") with a carrying amount of HK$159,870,000 (31 March 2023: HK$57,300,000) 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 2023 amounted to HK$686,139,000 (31 March 2023: HK$347,754,000).

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$159,870,000 (31 March 2023: HK$57,300,000); and the Discounted Bills and the associated other payables amounting to HK$686,139,000 (31 March 2023: HK$347,754,000). 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 2023, the Group had Endorsed Bills with an aggregate carrying amount of HK$208,651,000 (31 March 2023: HK$65,139,000) and Discounted Bills with an aggregate carrying amount of HK$363,308,000 (31 March 2023: HK$91,757,000) 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 2023, 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.

14. INVENTORIES

	30 September 2023 HK$'000	31 March 2023 HK$'000
Coal	300,138	283,090
Materials and supplies	29,467	20,292
	329,605	303,382

15. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 September 2023 HK$'000	31 March 2023 HK$'000
Other receivables	33,048	28,250
Prepayments	21,135	19,320
Deposits	3,629	11,343
VAT receivables *(Note)*	236,295	197,328
Others	281	372
	294,388	256,613
Less: allowance for credit losses	(1,846)	(1,846)
	292,542	254,767

Note:

*VAT receivables that are due from the Mongolian Tax Authority (the "**MTA**") have been accumulated to date since 2017. VAT receivables mainly arise from services paid for its mining related activities conducted by the Group's subsidiary in Mongolia, MoEnCo LLC ("**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$92.6 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 the announcement of the Company dated 21 August 2023.

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 2023 HK$'000	31 March 2023 HK$'000
0 to 30 days	288,325	201,344
31 to 60 days	5,770	5,509
61 to 90 days	9,756	5,222
Over 90 days	33,166	40,515
	337,017	252,590

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

17. OTHER PAYABLES AND ACCRUALS

	30 September 2023 HK$'000	31 March 2023 HK$'000
Other payables *(Note (a))*	817,872	395,511
Accrued staff costs	6,232	5,681
Balance payment for Khushuut road *(Note (b))*	35,958	35,958
Other tax payables *(Note (c))*	437,078	344,860
	1,297,140	782,010

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 2023, HK$420,451,000 (31 March 2023: HK$338,644,000) was recorded as royalty tax payable.

18. CONVERTIBLE NOTES AND LOAN NOTE

(a) Convertible notes

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

	Debt components HK$'000	Derivative components HK$'000	Total HK$'000
At 1 April 2022	2,673,167	828,515	3,501,682
Interest charge	381,438	–	381,438
Changes in fair value of derivative component	–	303,323	303,323
At 31 March 2023	3,054,605	1,131,838	4,186,443
Interest charge	211,244	–	211,244
Changes in fair value of derivative component	–	(326,267)	(326,267)
At 30 September 2023	3,265,849	805,571	4,071,420

2020 Convertible Notes with maturity date 6 March 2025

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

CTF and Golden Infinity Convertible Notes

On 6 March 2020, the Company issued 3% convertible notes with a principal of HK$2,809,671,052 and HK$628,387,371 to CTF and Golden Infinity respectively (the "**2020 Convertible Notes**") to replace 3% CTF Convertible Note and 3% GI Convertible Note.

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 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.

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 2023	31 March 2023
Stock price	HK$0.47	HK$1.05
Exercise price	HK$1.2	HK$1.2
Volatility *(Note (i))*	79.8%	77.91%
Dividend yield	0%	0%
Option life *(Note (ii))*	1.43 years	1.93 years
Risk free rate	4.47%	3.31%

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)

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.

(b) Loan Note

The 3% ZV Convertible Note matured on 21 November 2019. On 21 November 2019, Mr. Lo took up the full amount owing to the 3% ZV Convertible Note holder through Ruby Pioneer Limited ("**Ruby Pioneer**"). Ruby Pioneer is a wholly-owned company of Mr. Lo as at 21 November 2019. Immediately after the aforesaid taking up, the Company and Ruby Pioneer entered into a standstill agreement pursuant to which Ruby Pioneer agreed to extend the note for five years from 21 November 2019 to 21 November 2024 at a coupon rate of 3% per annum. The loan note contains no conversion or redemption option.

19. SHARE CAPITAL

Authorised and issued share capital

	30 September 2023 HK$'000	31 March 2023 HK$'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 2022, 31 March 2023 and 30 September 2023	188,125,849	3,763

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**").

20. SHARE-BASED PAYMENT (Continued)

Equity-settled share option scheme (Continued)

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 2023

			Number of options			
Grant date	Exercise price (HK$)	Exercisable period	Outstanding at 1 April 2023	Granted during the period	Lapsed during the period	Outstanding at 30 September 2023
18 January 2021	1.310	18-01-2021 to 17-01-2026	16,300,000	–	–	16,300,000
			16,300,000	–	–	16,300,000
Exercisable at 30 September 2023						16,300,000
Weighted average exercise price (HK$)			1.310	–	–	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.

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 schemes of the Company as at 30 September 2023 was 16,300,000 (31 March 2023: 16,300,000), representing 8.7% (2022: 8.7%) of the shares of the Company as at 30 September 2023.

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 may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

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).

21. CAPITAL COMMITMENTS

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

	30 September 2023 HK$'000	31 March 2023 HK$'000
Other exploration related commitments	4,770	5,759
Purchase of property, plant and equipment	5,415	1,081
Road improvement and transportation of mining equipment	13,970	15,101
Expansion of wash plant	9,008	14,976
Others	403	326
	33,566	37,243

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.

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 30 September 2023 HK$'000	Fair value as at 31 March 2023 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input	Relationship of unobservable inputs to fair value
Listed equity security classified as financial asset at FVTPL	**46,522**	51,598	Level 1	– Quoted bid prices in an active market	N/A	N/A
Bills receivables at FVTOCI	**1,291,148**	740,819	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	**805,571**	1,131,838	Level 3	– Binomial Valuation Model – The key inputs are share price, exercise price, option life, risk free rate, volatility and dividend yield	Volatility is 79.8% (31 March 2023: 77.91%)	A slight increase in the volatility would result in significant higher fair value measurement, and vice versa *(Note)*

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

Note:

If the 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$7,097,000 (2022: HK$102,823,000) or decrease by HK$3,761,000 (2022: HK$4,856,000), 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$8,425,000 (2022: HK$nil) or decrease by HK$2,952,000 (2022: HK$nil), as a result of changes in fair value of the derivative component of the convertible notes.

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 2023	1,131,838
Changes in fair value recognised in the condensed consolidated statement of profit or loss	(326,267)
At 30 September 2023	805,571

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.

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 2023 HK$'000	31 March 2023 HK$'000
Balance of advances *(Note)*	1,227,149	1,302,017

	Six months ended 30 September	
	2023 HK$'000	2022 HK$'000
Effective interest charge for the period *(Note 6)*	55,332	64,887

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.

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

	30 September 2023 HK$'000	31 March 2023 HK$'000
Convertible note	744,071	765,067

	Six months ended 30 September	
	2023 HK$'000	2022 HK$'000
Coupon interest charge on convertible note for the period *(Note (ii))*	9,426	9,426

23. RELATED PARTY TRANSACTIONS (Continued)

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

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$38,637,000 (2022: HK$33,820,000).

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

	30 September 2023 HK$'000	31 March 2023 HK$'000
Loan note	524,652	474,140

	Six months ended 30 September	
	2023 HK$'000	2022 HK$'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$50,512,000 (2022: HK$41,277,000).

23. RELATED PARTY TRANSACTIONS (Continued)

(d) Transactions with related party

	Six months ended 30 September	
	2023	**2022**
Nature of transactions	**HK$'000**	**HK$'000**
Reimbursement of sharing of administrative services from a related party *(Note (i) & (ii))*	3,280	4,239
Coal transportation services provided by a related party *(Note (i) and (iii))*	62,417	84,957
Geochemical analysis services provided by a related party *(Note (i))*	–	78

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) 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 2023 and extended the agreement for a period of 1 year.

(iii) 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.

23. RELATED PARTY TRANSACTIONS (Continued)

(e) Balance with related parties

	30 September 2023 HK$'000	31 March 2023 HK$'000
Rental deposits paid to related parties *(Note (i))*	379	401
Lease liabilities *(Note (i) and (iii))*	5,524	801
Balance of sharing of administrative services from a related party *(Notes (ii) and (iv))*	24,314	21,034
Balance of coal transportation services provided by a related party *(Notes (ii) and (v))*	27,969	–

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 2023 and 31 March 2023, 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$6,432,000 and HK$6,432,000 respectively (2022: addition of right-of-use assets and lease liabilities of HK$518,000 and HK$518,000 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.

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	
	2023 HK$'000	2022 HK$'000
Basic salaries, other allowances and benefits in kind	8,744	8,302
Retirement benefit scheme contributions	45	45
	8,789	8,347

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