MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2018

The board of directors (the "**Board**") of Mongolia Energy Corporation Limited (the "**Company**") announces the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 March 2018 (the "**Financial Year**") together with the comparative figures in the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2018

	Notes	2018	2017
		HK$'000	*HK$'000*
Revenue	4	**637,362**	321,893
Cost of sales		**(322,136)**	(198,482)
Gross profit		**315,226**	123,411
Other income		**3,541**	10,607
Other gains and losses	5	**(44,376)**	51,116
Administrative expenses		**(144,029)**	(100,883)
Changes in fair value on derivative component of convertible notes	14	**234,623**	235,971
Reversal of impairment loss on property, plant and equipment	3	**107,495**	–
Reversal of impairment loss on intangible assets	3	**8,809**	–
Reversal of impairment loss on prepaid lease payment	3	**185**	–
Impairment loss on available-for-sale financial asset		**(58)**	(77)
Impairment loss on amount due from an associate		**(9)**	(8)
Finance costs	6	**(626,421)**	(524,984)
Loss before taxation	7	**(145,014)**	(204,847)
Income tax expense	8	**(14,924)**	–
Loss for the year attributable to owners of the Company		**(159,938)**	(204,847)
Loss per share attributable to owners of the Company			
– basic and diluted loss per share (HK$)	10	**(0.09)**	(0.11)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2018

	2018	2017
	HK$'000	*HK$'000*
Loss for the year	**(159,938)**	(204,847)
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translating foreign operations	**19,364**	2,085
Total comprehensive expense for the year attributable to owners of the Company	**(140,574)**	(202,762)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**419,418**	256,115
Intangible assets		**34,286**	26,473
Exploration and evaluation assets	*11*	**190**	156
Interests in associates		**–**	–
Available-for-sale financial asset		**–**	–
Other asset		**1,150**	1,150
Prepaid lease payment		**697**	477
		455,741	284,371
Current assets			
Prepaid lease payment		**15**	10
Trade and bills receivables	*12*	**204,348**	159,586
Inventories		**107,018**	62,722
Other receivables, prepayments and deposits		**55,180**	34,761
Held-for-trading investments		**115,037**	156,713
Amounts due from associates		**–**	–
Cash and cash equivalents		**83,448**	14,197
		565,046	427,989
Current liabilities			
Trade payables	*13*	**108,610**	102,989
Other payables and accruals		**146,885**	147,403
Tax liabilities		**15,703**	–
Advances from a Director		**1,760,438**	1,613,067
Other loan		**9,064**	7,755
Deferred income		**1,554**	1,352
		2,042,254	1,872,566
Net current liabilities		**(1,477,208)**	(1,444,577)
Total assets less current liabilities		**(1,021,467)**	(1,160,206)
Non-current liabilities			
Convertible notes	*14*	**3,019,544**	2,761,989
Deferred income		**9,054**	9,196
		3,028,598	2,771,185
Net liabilities		**(4,050,065)**	(3,931,391)
Financed by:			
Capital and reserves			
Share capital		**37,625**	37,625
Reserves		**(4,087,690)**	(3,969,016)
Capital deficiencies attributable to owners of the Company		**(4,050,065)**	(3,931,391)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the principal place of business of the Company is 17th Floor, 118 Connaught Road West, Hong Kong.

The Company acts as an investment holding company and its subsidiaries (together with the Company collectively referred to as the "**Group**") are principally engaged in (i) mining, processing and sale of coal; and (ii) other resources related business.

The consolidated financial statements are presented in Hong Kong dollar ("**HK$**"). The functional currency of the Company is United States dollar ("**US$**") as the US$ better reflects the underlying transactions, events and conditions that are relevant to the Group's ongoing business. For the convenience of the financial statements users, the consolidated financial statements are presented in HK$, as the Company's shares are listed on the Stock Exchange.

In preparing the consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration to the future liquidity of the Group. While recognising that the Group had net liabilities of approximately HK$4,050.1 million and had net current liabilities of approximately HK$1,477.2 million at 31 March 2018 and incurred a loss of approximately HK$159.9 million for the year then ended, 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 as 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 million by way of advances made to the Group. Advances from a Director of HK$1,760.4 million as at 31 March 2018 comprise principal amount and accrued interest of HK$1,296.7 million and HK$463.7 million respectively. The balance of the unutilised facilities of HK$603.3 million remains valid until 31 March 2020 and Mr. Lo does not intend to demand repayment of the loan until the Company has sufficient cash to make repayment. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"):

HKAS 7 (Amendments)	Disclosure Initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 (Amendments)	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described below, the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKAS 7 (Amendments) "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in the annual report. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in the annual report, the application of these amendments has had no impact on the Group's consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs and interpretations that have been issued but are not yet effective:

HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[2]
HKAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures[2]
HKAS 28 (Amendments)	As part of Annual Improvements to HKFRSs 2014-2016 Cycle[1]
HKAS 40 (Amendments)	Transfers of Investment Property[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle[2]
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[1]
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
HKFRS 9	Financial Instruments[1]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for annual periods beginning on or after a date to be determined

3. RECOVERABLE AMOUNT ASSESSMENT ON KHUSHUUT RELATED ASSETS

At the end of the reporting period, the Group engaged a qualified professional valuer (the "**Independent Valuer**"), who is not connected with the Group, to determine the recoverable amount of its property, plant and equipment, intangible assets and prepaid lease payment related to the Khushuut mine operations (collectively referred to as "**Khushuut Related Assets**"). For the purposes of recoverable amount assessment to assess whether there have been reversal or further impairment, the Khushuut Related Assets are treated as a cash-generating unit, which represents the Group's coking coal mining operation in Western Mongolia. The recoverable amount of the Khushuut Related Assets has been determined based on a value-in-use calculation.

As the recoverable amount of Khushuut Related Assets determined by the Independent Valuer is higher than their carrying values, a reversal of impairment loss amounting to HK$116,489,000 was recognised in the consolidated statement of profit or loss in the current year against the respective assets on a pro-rata basis with reference to their carrying values as follows:

Carrying values for the year ended 31 March 2018:

	Carrying values before reversal of impairment loss	**Reversal of impairment loss**	**Carrying values after reversal of impairment loss**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	**305,657**	**107,495**	**413,152**
Intangible assets	**25,047**	**8,809**	**33,856**
Prepaid lease payment	**527**	**185**	**712**
Total	**331,231**	**116,489**	**447,720**

The reasons for such reversal of impairment loss being recognised in profit or loss this year were mainly due to (i) an increase in price of coking coal during the year ended 31 March 2018; and (ii) the demand of coking coal which is essential for the production of steel continued to be strong due to the boom in automobile manufacturing and property development sectors. This has caused a favourable coking coal market condition. All these reasons have had significant impact on the value-in-use assessment performed by the Directors in the current year with an increase in cash flows expected to be received.

Carrying values for the year ended 31 March 2017:

	Carrying values
	HK$'000
Property, plant and equipment	250,934
Intangible assets	26,166
Prepaid lease payment	487
Total	277,587

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in (i) mining, processing and sale of coal; and (ii) other resources related business. Revenue represents revenue arising from the sale of coal to external customers.

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

Segment revenue and result

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

For the year ended 31 March 2018

	Coal mining *HK$'000*	Total *HK$'000*
Segment revenue	**637,362**	**637,362**
Segment profit	**368,897**	**368,897**
Unallocated expenses *(Note)*		**(81,400)**
Other income		**1,113**
Other gains and losses		**(42,231)**
Changes in fair value on derivative component of convertible notes		**234,623**
Impairment loss on available-for-sale financial asset		**(58)**
Impairment loss on amount due from an associate		**(9)**
Finance costs		**(625,949)**
Loss before taxation		**(145,014)**

For the year ended 31 March 2017

	Coal mining *HK$'000*	Total *HK$'000*
Segment revenue	321,893	321,893
Segment profit	101,343	101,343
Unallocated expenses *(Note)*		(56,065)
Other income		16
Other gains and losses		38,591
Changes in fair value on derivative component of convertible notes		235,971
Impairment loss on available-for-sale financial asset		(77)
Impairment loss on amount due from an associate		(8)
Finance costs		(524,618)
Loss before taxation		(204,847)

Note:

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

The accounting policies of the operating segment are the same as the Group's accounting policies described in the annual report. Segment profit represents the profit from the coal mining operation without allocation of expenses not directly related to the operating segment, unallocated other income, certain finance costs, certain other gains and losses, changes in fair value of derivative component of convertible notes, impairment loss on available-for-sale financial asset and amount due from an associate. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

As at 31 March 2018

	HK$'000
ASSETS	
Segment assets – coal mining	**891,511**
Held-for-trading investments	**115,037**
Cash and cash equivalents	**9,080**
Other unallocated assets *(Note (a))*	**5,159**
Consolidated total assets	**1,020,787**
LIABILITIES	
Segment liabilities – coal mining	**245,265**
Convertible notes	**3,019,544**
Advances from a Director	**1,760,438**
Other unallocated liabilities *(Note (b))*	**45,605**
Consolidated total liabilities	**5,070,852**

As at 31 March 2017

	HK$'000
ASSETS	
Segment assets – coal mining	541,000
Held-for-trading investments	156,713
Cash and cash equivalents	9,597
Other unallocated assets *(Note (a))*	5,050
Consolidated total assets	712,360
LIABILITIES	
Segment liabilities – coal mining	218,017
Convertible notes	2,761,989
Advances from a Director	1,613,067
Other unallocated liabilities *(Note (b))*	50,678
Consolidated total liabilities	4,643,751

Notes:

(a) Other unallocated assets mainly represent property, plant and equipment, intangible assets, other asset and other receivables, prepayments and deposits not for coal mining business.

(b) Other unallocated liabilities mainly represent other payables and accruals not for coal mining business.

Other segment information

For the year ended 31 March

Amounts included in the measure of segment profit or segment assets:

Coal mining

	2018	2017
	HK$'000	*HK$'000*
Capital additions	**60,062**	9,983
Amortisation of intangible assets	**1,481**	1,539
Amortisation of prepaid lease payment	**11**	10
Interest income	**355**	95
Depreciation of property, plant and equipment	**7,730**	5,927
Reversal of impairment loss on property, plant and equipment	**(107,495)**	–
Reversal of impairment loss on intangible assets	**(8,809)**	–
Reversal of impairment loss on prepaid lease payment	**(185)**	–
Loss (gain) on disposal of property, plant and equipment	**17**	(231)
Loss on write off of property, plant and equipment	**–**	16

Geographical information

The Group's operations are principally located in Hong Kong, Mongolia and the People's Republic of China (the "**PRC**").

Information about the Group's revenue from external customers is presented based on location of customers:

	Revenue	
	2018	2017
	HK$'000	*HK$'000*
Mongolia	**2,448**	2,864
The PRC	**634,914**	319,029
	637,362	321,893

Information about its non-current assets is presented based on geographical location of the assets:

	Non-current assets	
	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**2,804**	2,703
Mongolia	**415,855**	270,269
The PRC	**37,082**	11,399
	455,741	284,371

Note:

Non-current assets exclude financial instruments.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total turnover of the Group is as follows:

	2018	2017
	HK$'000	*HK$'000*
Customer A	**281,691**	264,205
Customer B	**190,836**	N/A*
Customer C	**125,324**	N/A*

* The corresponding revenue did not contribute over 10% of the total turnover of the Group.

5. OTHER GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Changes in fair value on held-for-trading investments	**(40,566)**	38,916
Loss on write off of property, plant and equipment	**–**	(16)
Gain on disposal of property, plant and equipment	**46**	231
(Impairment loss) reversal of impairment loss on other receivables	**(124)**	177
Reversal of loss on write off of prepayments for exploration and evaluation expenditure *(Note)*	**–**	7,904
Net exchange (loss) gain	**(2,349)**	3,904
Others	**(1,383)**	–
	(44,376)	51,116

Note:

Amount represented prepayment for exploration drilling which was written off by the Group during the year ended 31 March 2015. Legal action was taken by the Group to recover the amount. A judgment in favour of the Group was granted during the year ended 31 March 2017 and refund of the prepayment was received during the year ended 31 March 2018.

6. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on advances from a Director	**133,771**	114,311
Interest on other loan	**472**	366
Effective interest expense on convertible notes *(Note 14)*	**492,178**	410,307
	626,421	524,984

7. LOSS BEFORE TAXATION

	2018	2017
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging/(crediting):		
Directors' emoluments	**23,330**	10,898
Other staff costs:		
Salaries and other benefits (net of reimbursement from a related party)	**66,816**	59,023
Equity-settled share-based payments	**12,252**	–
Retirement benefits scheme contributions (excluding contributions for Directors and net of reimbursement from a related party)	**6,942**	6,245
Total staff costs	**109,340**	76,166
Less: staff costs capitalised in inventories	**(26,381)**	(26,273)
	82,959	49,893
Amortisation of prepaid lease payment	**11**	10
Amortisation of intangible assets	**1,501**	1,588
Depreciation of property, plant and equipment	**8,850**	11,930
Auditor's remuneration	**3,600**	3,480
Operating lease rental in respect of office premises (net of reimbursement from a related party)	**3,278**	2,829

8. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax ("**EIT**")	**14,924**	–
Deferred tax	**–**	–
	14,924	–

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

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

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

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

Only PRC EIT has been provided for current year. No provision for Hong Kong and overseas taxation has been made for both years as the Group has no assessable profit arising from operation in Hong Kong and the assessable profit arising from overseas operation was wholly absorbed by tax losses brought forward.

9. DIVIDENDS

No dividend was paid or proposed by the Company during the year ended 31 March 2018 nor has any dividend been proposed since the end of the reporting period (2017: Nil).

10. LOSS PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	**159,938**	204,847

	2018	2017
	'000	*'000*
Number of shares		
Number of ordinary shares for the purpose of basic and diluted loss per share	**1,881,258**	1,815,558

Note:

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

11. EXPLORATION AND EVALUATION ASSETS

	Mining and exploration rights *(Note (a))* *HK$'000*	**Others** *(Note (b))* *HK$'000*	**Total** *HK$'000*
At 1 April 2016	–	–	–
Addition	151	5	156
At 31 March 2017	151	5	156
Addition	–	34	34
At 31 March 2018	151	39	190

Notes:

(a) Mining and exploration rights include (i) an iron ore exploration concession of around 2,986 hectares in Western Mongolia for ferrous resources and (ii) a ternary metal exploration concession of around 10,084 hectares in Western Mongolia acquired during the year ended 31 March 2017.

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

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

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

During the year ended 31 March 2018, management considered that the factors mentioned above continued to apply and concluded that the recoverable amount of the iron ore concession remains minimal. Accordingly, no reversal of impairment loss was considered necessary in the current year. As at 31 March 2018, only limited exploration works were done on the iron ore concession.

(b) Others represent the expenses incurred for the concession as mentioned in Note (a).

(c) Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for three successive periods of 3 years each and mining licences for two successive periods of 20 years each.

12. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**46,585**	18,087
Bills receivables	**109,026**	36,995
Accrued income *(Note)*	**48,737**	104,504
	204,348	159,586

Note:

Income was accrued on the basis that coals are delivered and the customer has accepted the goods and invoice will be issued within 3 months.

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

The following is an aged analysis of trade receivables.

	2018	2017
	HK$'000	*HK$'000*
1-30 days	**51,056**	25,338
31-60 days	**8,053**	44,550
61-90 days	**1,445**	19,316
Over 90 days	**34,768**	33,387
	95,322	122,591

The following is an aged analysis of bills receivables.

	2018	2017
	HK$'000	*HK$'000*
1-30 days	**33,441**	16,419
31-60 days	**17,778**	4,897
61-90 days	**20,756**	–
Over 90 days	**37,051**	15,679
	109,026	36,995

13. TRADE PAYABLES

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

	2018	2017
	HK$'000	*HK$'000*
0 to 30 days	**54,315**	15,764
31 to 60 days	**1,359**	20,828
61 to 90 days	**506**	9,616
Over 90 days	**52,430**	56,781
	108,610	102,989

14. CONVERTIBLE NOTES

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

	Debt component		Derivative component		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of the year	**2,463,743**	2,053,436	**298,246**	534,217	**2,761,989**	2,587,653
Interest charge	**492,178**	410,307	**–**	–	**492,178**	410,307
Changes in fair value of derivative component	**–**	–	**(234,623)**	(235,971)	**(234,623)**	(235,971)
At end of the year	**2,955,921**	2,463,743	**63,623**	298,246	**3,019,544**	2,761,989

2014 Convertible Notes with maturity date 21 November 2019

In prior years, the Company issued HK$200 million 5% convertible note to Golden Infinity Co., Ltd. ("**Golden Infinity**") (the "**5% GI Convertible Note**"), HK$200 million 5% convertible note to Chow Tai Fook Nominee Limited ("**CTF**") (the "**5% CTF Convertible Note**") and HK$2 billion 3% convertible note to CTF (the "**3% CTF Convertible Note**").

On 19 September 2014, the Company entered into the subscription agreements with CTF, Golden Infinity and the holders of the 3.5% convertible notes with principal amount in aggregate amount of HK$466.8 million (the "**3.5% OZ Convertible Note**"), who conditionally agreed to subscribe for new 5-year 3% convertible notes at the subscription price which would be used for full settlement of the outstanding principal amount and accrued interest of the 5% GI Convertible Note, the 3% CTF Convertible Note, the 3.5% OZ Convertible Note and the 5% CTF Convertible Note.

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

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

The 2014 Convertible Notes contains two components, a debt component and derivative component with a conversion option derivative of the holders and a callable option derivative of the issuer. The effective interest rate of the debt component is 19.96%. The derivative component with a conversion option derivative of the holders is measured at fair value with changes in fair value as the 2014 Convertible Notes is denominated in HK$, which is different from the functional currency of the Company (i.e. US$) whereas the fair value of the derivative component with a callable option derivative considered is immaterial as at 31 March 2018 and 2017.

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

	21 November 2014	31 March 2017	**31 March 2018**
Stock price	HK$0.63	HK$0.26	**HK$0.18**
Exercise price	HK$0.92	HK$0.87	**HK$0.87**
Volatility *(Note (a))*	102.00%	82.02%	**83.31%**
Dividend yield	0%	0%	**0%**
Option life *(Note (b))*	5 years	2.64 years	**1.64 years**
Risk free rate	1.23%	1.00%	**1.29%**

Notes:

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

(b) The option life as at 31 March 2018 was based on the maturity date of the notes.

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

No conversion was made during the year ended 31 March 2018.

15. CONTINGENT LIABILITIES

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

The former mining contractor issued two writ of summons on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK$93.7 million. In May 2015, the former mining contractor applied to Court to amend its statements of claim under the two writs by amending, among others, (i) the currency of the claims from Mongolian Tugrik to United States dollars; and (ii) the amount of the claim to include the alleged contractor's fees up to October 2014. According to amended statement of claims, two writ of summons make the total claims at approximately HK$198.9 million. In April 2016, a mediation meeting between the Company and the former mining contractor was held before a mediator but the parties were unable to reach a settlement agreement, thus the mediation was terminated and the legal proceedings moved on. In September 2016, the Company received a revised statement of claim consolidating the two actions with a claim amount of approximately HK$105.6 million from the former mining contractor, of which approximately HK$50.0 million was provided for in the consolidated financial statements as at 31 March 2018 (2017: HK$50.0 million). Based on the opinion provided by legal counsel of the Company, the Directors consider that the payment of the remaining balance is not probable.

EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

The Company's independent auditor's report for the year ended 31 March 2018 has included a separate section under the heading "Material Uncertainty Related to Going Concern" but without affecting the audit opinion, an extract of which is as follows:

Material Uncertainty Related to Going Concern

We draw attention to Note 1* to the consolidated financial statements which indicates that as at 31 March 2018, the Group had net liabilities of approximately HK$4,050 million and net current liabilities of approximately HK$1,477 million. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from a substantial shareholder who is also the Chairman and director of the Company. If the finance were not available, the Group would be unable to meet its financial obligations as and when they fall due. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

* *Being Note 1 in this announcement*

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the Financial Year (2017: Nil).

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting (the "**AGM**") of the Company will be held on Friday, 24 August 2018. The notice of the AGM will be published and despatched to the shareholders of the Company in the manner as required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in due course.

The register of members of the Company will be closed from Tuesday, 21 August 2018 to Friday, 24 August 2018, both days inclusive. During such period, no transfer of shares of the Company will be registered. For the purpose of ascertaining the members' entitlement to attend and vote at the AGM of the Company to be held on Friday, 24 August 2018, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 20 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Company is an investment holding company.

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

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

During the Financial Year, approximately 1,328,500 tonnes of run-of-mine ("**ROM**") coal were produced and approximately 594,700 tonnes of coal, including clean coking coal, raw coal and thermal coal, were sold to our customers during this period.

RESULTS ANALYSIS

Revenue

In the Financial Year, the Group's revenue was HK$637.4 million (2017: HK$321.9 million). The almost double growth in revenue was due to the higher sales volumes and coking coal prices. During the Financial Year, the Group sold approximately 520,400 tonnes (2017: 359,200 tonnes) of clean coking coal and approximately 60,500 tonnes of thermal coal and approximately 13,800 tonnes of raw coal (2017: 29,900 tonnes of thermal coal only). The average selling prices of clean coking coal, thermal coal and raw coal net of sales tax were approximately HK$1,200.0 (2017: HK$888.1), HK$52.8 (2017: HK$95.7) and HK$701.1 (2017: N/A) per tonne respectively.

Cost of Sales

Cost of sales includes mining costs, coal processing costs, transportation costs and other relevant operating expenses. The cost of sales for the Financial Year was HK$322.1 million (2017: HK$198.5 million). The increase was due to the higher sales volume. It was divided into cash costs of HK$315.5 million (2017: HK$191.0 million) and non-cash costs of HK$6.6 million (2017: HK$7.5 million).

Gross Profit

Benefitting from the increase of average realised selling prices and sales volume as well as the implementation of effective measures to lower production costs, the Group's gross profit increased substantially to HK$315.2 million (2017: HK$123.4 million) with a gross profit ratio of 49.5% (2017: 38.3%).

Other Gains and Losses

The net loss was mainly due to the fair value loss of HK$40.6 million arising from an investment in a Hong Kong listed company (2017: fair value gain of HK$38.9 million).

Administrative Expenses

Administrative expenses included the following major items: (1) Directors' remuneration and staff costs of HK$83.0 million (2017: HK$49.9 million). The sharp increase was mainly due to the share options granted in September 2017 where a total of HK$21.9 million equity-settled share-based payment was recognised in the Financial Year (2017: Nil) and increase in supportive staff for mine operation; and (2) Audit, legal and other professional fees of HK$29.3 million (2017: HK$18.7 million). The sharp increase was mainly due to higher legal and professional expenses on the legal proceedings against our former mining contractor.

Changes in Fair Value on Derivative Component of Convertible Notes

The convertible notes issued by the Company in 2014 contain debt and conversion option components. In pursuance of the Company's accounting policies, the fair value of the conversion option components of the convertible notes shall be re-measured at the end of each reporting period. At the end of the Financial Year, an independent valuer was engaged by the Company using binomial valuation model to determine the fair value of the conversion options of the convertible notes. A resulting gain on changes in fair value of HK$234.6 million was recognised (2017: HK$236.0 million). The major inputs into the binomial valuation model were disclosed in the notes to the consolidated financial statements.

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

At the end of the Financial Year, an independent qualified professional valuer was engaged by the Group to determine the recoverable amount of the Mine Assets.

The recoverable amount of the Mine Assets is based on the discounted cash flow model that incorporates best estimates made by the management of the Group on price trend of coking coal, coking coal grades, production capacity and rates, future capital expenditure, inflation rate and production costs over the life of the Khushuut mine, etc. The cash flow projection covers the expected life of the whole operation. Assumptions about selling prices, operating and capital costs, sales volume, inflation rates and discount rates are particularly important; the determination of the recoverable amount is relatively sensitive to changes in these important assumptions.

Key changes in assumptions used in the discounted cash flow model as at 31 March 2018 and 2017 are set out as below:

	Notes	**2018**	2017
Discount rate	*(a)*	**20.52%**	16.91%
Current coking coal price per tonne	*(b)*	**US$143**	US$128
Inflation rate	*(c)*	**1.90%**	2.04%

Notes:

(a) The discount rate is derived from the Group's weighted average cost of capital ("**WACC**") with appropriate adjustments made to reflect the risks specific to the Khushuut Coal Mine. The WACC takes into account both cost of debt and equity, and weighted based on the Group's and comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors and based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of comparable peer companies. The change of discount rate from last year was a combined result of the updates on the WACC including the risk-free rate and other risk premium factors. The risk-free rate adopted was the yield of China 10-year government bond as at 31 March 2018. The risk premium factors were to reflect the business risks of the Khushuut Coal Mine;

(b) The current coking coal price was updated based on latest sales contract; and

(c) Inflation rate was updated by reference to external market research data.

In pursuant to the recoverable amount assessment, a reversal of impairment amounted to HK$116.5 million was made in the Financial Year (2017: Nil).

Finance Costs

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

BUSINESS REVIEW

Coal Sales

During the Financial Year, we sold approximately 520,400 tonnes of clean coking coal (after washing) (2017: 359,200 tonnes), and 13,800 tonnes of raw coking coal (without washing) (2017: Nil) to our customers in Xinjiang, China.

Apart from coking coal, we also supplied approximately 60,500 tonnes of thermal coal to the local community in Mongolia and China during the Financial Year (2017: 29,900 tonnes).

Coal Production

During the Financial Year, approximately 3,006,000 bank cubic meters ("**BCM**") of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2017: 1,400,100 BCM).

Production of ROM coal and thermal coal were approximately 779,500 tonnes and 549,000 tonnes respectively (2017: 732,200 tonnes and 371,200 tonnes).

Coal Processing

During the Financial Year, approximately 804,900 tonnes of ROM coal were processed by the dry coal processing plant, producing approximately 625,200 tonnes of raw coking coal. The average recovery rate was 77.7%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customer.

In Xinjiang, approximately 646,500 tonnes of raw coking coal were processed by the washing plant, producing approximately 547,400 tonnes of clean coking coal. The average recovery rate was 84.7%.

Coal Shipping

Apart from the field work contractors, we hired external coal trucking companies with heavy-duty trucks to provide coal transportation services for our coal export.

To improve raw coal shipping logistic from Khushuut to Xinjiang, we set up a new customs bonded yard close to Xinjiang border. Our new Uyench customs bonded yard ("**Uyench CBY**") is located 223 km of the Khushuut Road from the Khushuut Coal Mine. The Uyench CBY started to operate for coal delivery to Xinjiang since January 2018. Approximately 228,100 tonnes of raw coal were shipped from the mine to Uyench CBY for export to Xinjiang in the Financial Year.

Customers and Sales

As the market fundamentals had been improved during the Financial Year, we were working to expand our customer base apart from our major customer.

We had entered into a master coal supply contract for 2017 with our major customer in Xinjiang (raw coal without processing). The actual sales price and the quantity to be delivered had to be negotiated and mutually agreed from time to time, monthly in general, between the parties during this period. Under the said master contract, the clearing was based on the actual clean coking coal delivered after washing, and on this basis, we sold 221,400 tonnes of clean coking coal to this customer during the Financial Year. It accounted for approximately 44.2% of our revenue in the Financial Year.

In respect of our other customers, we negotiated the sales and delivery orders shortly before delivery under the then prevailing market price and our quantity of coal available.

In January 2018, we concluded a new master coal supply contract with our major customer in Xinjiang. Similar to the 2017 contract, the actual sales price and quantity to be delivered have to be negotiated and mutually agreed from time to time between the parties during this period. Notwithstanding the signing of the new coal supply contract with our major customer, our production and shipment of coal are closely linked to the market and other conditions, and shipment negotiations between us and the major customer from time to time. We will closely monitor the developments and adjust our operation schedule from time to time.

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

Licences

During the Financial Year, we maintained nine mining licences, of which eight are for our Khushuut operations, and two exploration licences.

Legal and Political Aspects

In late 2017 and early 2018, the Government of Mongolia announced the year of 2018 as "Year of Responsibility". It stipulates measures to form a more efficient and productive partnership between government and private industry, aiming, among others, to reduce and eliminate the complicated bureaucracy which is detrimental to private businesses, especially at the local government level.

The Mongolian government remains supportive of its coal mining industry. For example, several important measures promoting coal exports to China have been taken, including negotiations with the relevant authorities in the PRC to expedite the procedures of border passing and customs clearance, resolution of the social insurance problem for individual coal truck drivers operating in the country's southern provinces, and a number of other actions. In April 2018, the Parliament of Mongolia ratified the "Treaty on International Auto Transportation through Asian Road Network", signed between the PRC, Mongolia and Russian Federation.

In March 2018, the Prime Minister of Mongolia and Finance Minister presented to the public the proposed new edition of General Tax Law and other tax laws. Although they suggested no change to the existing major tax rates, proposed changes on reporting, tax payment procedures and miscellaneous taxes were introduced notably to support small and medium enterprises and foreign investment companies. It is expected that the Parliament will discuss the new tax bills by its fall 2018 session, and the new tax regime would become effective from January 2019. Presently, we consider there would be no significant impact on our operations in Mongolia.

An important new development concerning the minerals licence issuance procedures was adoption of the regulation on "Minerals licence issuance tenders" enacted in February 2018. During fall of 2017, the Minister of Mining and Heavy Industry temporarily ceased the issuance of new exploration licences. Subsequently in February 2018, a decision was issued to reinstate the issuance of exploration licences, but only under openly announced tender instead of the previous issuance principle of "first come – first serve" basis.

In China, air pollution has always been a serious problem and threat to the environment. It is mainly connected to China's addiction to coal burning, and its energy-intensive way of industrial growth. In 2013, The State Council of China issued the "Action Plan On Prevention and Control of Air Pollution" to control air pollution of China and for alleviating emissions and promoting better and efficient use of energy as part of the environmental protection measures. The goal is to improve the overall national air quality and to reduce the length of heavily pollution days. In 2014, China promulgated the "Interim Measures on Commercial Coal Quality Management" to complement the clean air policies by requiring, among other, stringent coal import inspection and supervision to ensure the quality of imported coal. Although the air quality has seen a tremendous improvement after the implementation of the green policies, China spares no effort in further tightening import control on coal since last year. More stringent checks and control have been carried out in certain Chinese ports and borders to prevent low quality coal from importing into China. As a result of such practice, trucks exporting coal from Mongolia to China take longer time at the China Mongolia borders to get cleared. From January to May this year, Mongolia exported 14.31 million tonnes of coal which is a drop of 5.12% from the same period last year.

Environmental policies, relevant laws and regulations affecting us

As a responsible corporation, environmental stewardship is one of the pillars of our sustainable business strategy to safeguard people and the environment, and to create enduring values for our customers, employees, host communities, shareholders, and business and supply chain partners. The Group has adopted an environmental policy focusing primarily on, among others, complying with the host-country legislation and regulations; establishing management systems and programs relevant to our environmental risks to prevent, reduce or mitigate impacts at all stages of our operations; regularly assessing our performance through evaluating our business processes and practices and monitoring the surrounding environment in which we operate.

Our business operation is mainly carried out by MoEnCo in Mongolia. MoEnCo has a detailed environmental assessment of the Khushuut Mine covering five years environmental management and protection related matters in our mine operation, and based on such documentation, the Ministry of Environment and Tourism of Mongolia will approve an annual environmental plan while monitoring the implementation of the previous year's environmental plan through an implementation report submitted by MoEnCo. MoEnCo has an environmental management team responsible for implementing its environmental duties and responsibilities under the directions of its mining director and deputy health, safety and environmental manager. The legal department of MoEnCo is responsible for recording compliance issues while monitoring timely execution and submission of the environmental reports and plans to the relevant Mongolian authorities on an annual basis.

When preparing its annual Environmental Management Plan ("**EMP**"), MoEnCo works closely with the local soum government and provincial environmental agencies to reflect their proposals in the EMP. We also conduct joint assessment of the execution of each EMP. The implementation of the 2017 EMP was discussed by a working group appointed by the Khovd province Governor's Office in December 2017, where the working group assessed MoEnCo's performance of the 2017 EMP as 'adequate'. We submitted the 2017 Environmental Management Report with the working group assessment to the Ministry of Environment and Tourism which approved the report in February 2018.

In December 2017, the Ambient Air Quality and Pollution Survey in the vicinity of Khushuut Mine was completed by the Institute of Meteorology, Hydrology and Environment, Khovd Province Environmental Office and Central Laboratory for Environmental Measurements which issued their professional opinions. The study concluded that fine particle pollutants were found at some points, but sulfur dioxide, nitrogen dioxide and heavy metals content in the air did not exceed the tolerable level specified in the standard.

The Company has also joined the project on "Reducing land degradation and adverse impact in the Western provinces of Mongolia and officering the corresponding protection" funded by the United Nations ("**UN**"). The UN Representative Office in Mongolia, Ministry of Environment and Tourism of Mongolia and MoEnCo have signed a Memorandum of Understanding and now working together for the environmental rehabilitation measures at Khushuut.

The relevant laws and regulations having significant impact on our operation include Minerals Law and various laws on the environmental protection such as Law on Environmental Protection, Law on Environmental Impact Assessment, the MPL, etc. So far as the Board and management are aware, MoEnCo has generally complied with its environmental duties as required by the Mongolian laws and regulations during the Financial Year. More details are set out in the Environmental, Social and Governance Report.

Key stakeholders relationship

Engaging with and building relationships with all our stakeholders is the key to sustaining our business. Our stakeholders are the individuals, groups or organisations that affect and are affected by our business activities and performance. The stakeholders of the Group include our shareholders, employees, customers, contractors, various Mongolian governmental authorities (such as the Ministry of Environment and Tourism, the Ministry of Mining, the State Specialized Inspection Agency, the MRPAM and their local governmental agencies), various Chinese governmental authorities (such as the Environmental Protection Bureau, the Safe Production Supervision Administration, the General Administration of Customs and their local governmental agencies), and local communities. In general, we maintain a good relationship with them.

There was no material and significant dispute between the Group and its customers, suppliers and other business partners regarding our operation in the Financial Year.

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

Two writs of summons were taken out by Thiess in 2013 claiming the Company for outstanding contractor fees of MNT12.2 billion (approximately HK$57.3 million) and MNT7.7 billion (approximately HK$36.4 million) respectively.

In May 2015, Thiess applied to the Court to amend its Statements of Claim under the two writs according to its amended Statements of Claim:

(i) the amount of the first writ claimed has changed from MNT12.2 billion (approximately HK$57.3 million) to US$9.04 million (approximately HK$70.1 million); and

(ii) the amount of the second writ claimed has changed from MNT7.7 billion (approximately HK$36.4 million) to US$16.6 million (approximately HK$128.8 million).

Subsequently the two actions had been consolidated. Under the consolidated Statement of Claim, Thiess had substantially reduced its claim to US$13.5 million (approximately HK$105.6 million) by giving up its alleged service fees after October 2012.

We filed our Re-amended Defence in October 2017. Thiess filed its Re-amended Reply in February 2018. Supplemental witness statements have been exchanged. Next, it will come to the exchange of independent expert reports.

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

FINANCIAL REVIEW

Liquidity and Financial Resources

During the Financial Year, the Group recorded net cash inflows before movements in working capital of HK$207.4 million (2017: HK$57.7 million). The movements in working capital reduced the net cash inflow from operations to HK$115.9 million (2017: net cash used in operations of HK$142.6 million). The borrowings of the Group as at 31 March 2018 were mainly comprised convertible notes and advances from Mr. Lo in aggregate of HK$4,780.0 million (2017: HK$4,375.1 million). The convertible notes are non-current liabilities and the maturity date is 21 November 2019. The advances from Mr. Lo are current liabilities. As at 31 March 2018, the cash and bank balances of the Group were HK$83.4 million (2017: HK$14.2 million) and the liquidity ratio was 0.28 (2017: 0.23). At the end of the Financial Year, the Group had net current liabilities of approximately HK$1,477.2 million (2017: HK$1,444.6 million). Mr. Lo commits to offer his financial support to the Group during and after the Financial Year. Accordingly, 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.

Property, Plant and equipment

During the Financial Year, the Group had incurred capital expenditures of approximately HK$60.9 million (2017: HK$9.8 million) mainly in building a new Uyench CBY and the acquisition of heavy duty trucks and loaders to support our expanding coal shipping operations.

Trade and Bills Receivables

As at 31 March 2018, trade and bills receivables increased to approximately HK$204.3 million (2017: HK$159.6 million) due to the increase in sales volume. The Group allows a credit period of 30 to 60 days for trade receivables and bills receivables should be with maturity days of 180 days or less. As at 31 March 2018, the majority of the trade receivables were within our credit period. For the bills receivables, they were non-interest bearing bank acceptance bills with settlement being guaranteed by the licensed banks in the PRC. Accordingly, the Directors considered that allowance for doubtful debt was not required in the Financial Year.

Held-for-trading investments

As at 31 March 2018, the fair value of the held-for-trading investments was HK$115.0 million (2017: HK$156.7 million), which was approximately 11.3% (2017: 20.7%) of the total assets of the Group. It represents the Group's interest in Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "**Jade Bird**"), a company listed in Hong Kong. The principal activities of Jade Bird and its subsidiaries are engaging in the technology research, development, marketing and sale of embedded system products and related products in security and fire alarm systems. The Group's investment is approximately 6.13% of the total issued share capital of Jade Bird. During the Financial Year, the Group did not receive any dividend from Jade Bird.

The decrease in carrying value of the held-for-trading investments was mainly due to the unrealised fair value loss of HK$40.6 million (2017: fair value gain of HK$38.9 million).

Charge on Group's Assets

There was no charge on the Group's assets as at 31 March 2018 (2017: Nil).

Gearing Ratio

As at 31 March 2018, the gearing ratio of the Group was 4.7 (2017: 6.2) which was calculated based on the Group's total borrowings to total assets.

Foreign Exchange

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

Contingent Liabilities

As at 31 March 2018, the Group's material contingent liabilities were related to legal claims made by a former mining contractor in 2013. Please refer to the Note 15 to this announcement.

OUTLOOK

Last year was a fruitful year for the world's economy; it had a positive impact on most industries including the coal and steel sectors. Most steel and coal firms recorded with outstanding results and performances. However, risk factors which may hamper the trend of economic growth such as the trade tension between the United States and China, the rise in interest rate and tax policies of the United States and geopolitical risks, are looming this year. If these risks factors could not be properly managed, they could pose downside risks to the global economy. Therefore, 2018 will be a year of mixed opportunities and challenges.

According to the estimation of the World Steel Association, Gross Domestic Product ("**GDP**") growth of China in 2018 and 2019 is expected to decelerate mildly. The growth driver will continue to shift toward consumption. According to the China's government work report released earlier this year, China has set its GDP growth target at around 6.5 percent for 2018. China will not emphasize on speed but on improvements in the quality and effect of development. With these focuses China is firm to tackle industrial overcapacity, control and reduce excess debts while pursuing its developments. It has pledged to continue its overcapacity cut policy in 2018 and aims to reduce steel capacity by 30 million tonnes and coal output by 150 million tonnes. We anticipate such measures and policy factors of China will put pressure on the demand and prices of steel which will have a knock-on effect on coking coal.

As the business environment is filled with uncertainties this year, we must remain vigilant in our operations. Our coking coal is characterized by its low ash, low sulphur, low volatile matter and good caking quality which is competitive in the Xinjiang market. Apart from economic and environmental issues, our production and planning are also affected by the policies of Mongolia and China from time to time. Since the beginning of this year, in order to implement The State Council of China's policies on Action Plan On Prevention and Control of Air Pollution for alleviating emissions and promoting better and efficient use of energy, and also pursuant to the Interim Measures for the Administration of Commercial Coal Quality, the border departments of China have exercised stricter control on coal import into China. We had experienced import restrictions in April and May last year and recently we have also encountered stringent import control in border crossing, causing delay of our coal export. Though such policies did not have major impact on our sales and production in the Financial Year, we anticipate such control measures may restrict our further ramping up of production and sales in this coming financial year, and our export volume in the coming year may less than last year. While we will reflect our concerns to the Xinjiang authorities and work with them to find ways of improving the customs clearing and crossing procedures, we will use our best endeavour to achieve our production volume for export this year comparable to last year. However, if the border crossing issue persists, it may also impact our costs and efficiency on production. We will devise a contingency plan on cost control in response to this condition to bring about the most effective way of our operations. We will keep a close watch on the market developments and to adjust our sales and operation plan effectively and flexibly.

HUMAN RESOURCES

As at 31 March 2018, excluding site and construction workers directly employed by our contractors, the Group employed 740 full-time employees in Hong Kong, Mongolia, and the PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on a periodic basis. Apart from the retirement scheme, year-end bonus, and share options are awarded to the employees according to performance of the Group, assessment of individual performance, and industry practice. Appropriate training programs are also offered for staff training and development.

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

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

CORPORATE GOVERNANCE

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

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

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

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

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

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

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

   The Chairman was unable to attend the 2017 AGM due to another business engagement. An executive director took the chair of the 2017 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 2017 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 TRANSACTIONS

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

The Company has also established written guidelines on terms no less exacting than the Model Code (the "**Employees' Guidelines**") for securities transactions by relevant employees of the Group who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance with the Employees' Guidelines by the employees was noted by the Company during the reporting period.

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 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 relevant quarterly or 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.

Specific enquiry has been made by the Company, all the Directors have confirmed in writing that they have complied with the required standards set out in the Model Code and the Code throughout the Financial Year.

REVIEW OF ANNUAL RESULTS

The independent auditor of the Company, Messrs. Deloitte Touche Tohmatsu, has agreed that the figures in respect of the Group's annual results for the year ended 31 March 2018 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year in accordance with its engagement under Hong Kong Standard on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" and with reference to Practice Note 730 "Guidance for auditors regarding preliminary announcements of annual results" issued by the Hong Kong Institute of Certified Public Accountants.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive Directors, namely Mr. Lau Wai Piu, Mr. Tsui Hing Chuen, William *JP* and Mr. Lee Kee Wai, Frank. Mr. Lau Wai Piu is appointed as the chairman and has appropriate professional qualifications, accounting and related financial management experience.

The Audit Committee has reviewed the consolidated financial statements for the Financial Year of the Group.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mongolia-energy.com). The annual report of the Company for the Financial Year containing all the information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites in due course.

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

Hong Kong, 25 June 2018

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