MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2019

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 2019 (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 2019

	Notes	**2019** *HK$'000*	2018 *HK$'000*
Revenue	*4*	**776,708**	637,362
Cost of sales		**(440,910)**	(322,136)
Gross profit		**335,798**	315,226
Other income		**3,350**	3,541
Other gains and losses	*5*	**(27,072)**	(44,252)
Administrative expenses		**(132,510)**	(144,029)
Changes in fair value on derivative component of convertible notes	*15*	**63,542**	234,623
Reversal of impairment loss on property, plant and equipment	*3*	**378,791**	107,495
Reversal of impairment loss on intangible assets	*3*	**50,460**	8,809
Reversal of impairment loss on prepaid lease payment	*3*	**427**	185
Impairment losses on financial assets	*7*	**(1,348)**	(191)
Finance costs	*6*	**(735,263)**	(626,421)
Loss before taxation	*7*	**(63,825)**	(145,014)
Income tax credit (expense)	*8*	**19,400**	(14,924)
Loss for the year attributable to owners of the Company		**(44,425)**	(159,938)
Loss per share attributable to owners of the Company			
— basic and diluted loss per share (HK$)	*10*	**(0.02)**	(0.09)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

	2019	2018
	HK$'000	*HK$'000*
Loss for the year	**(44,425)**	(159,938)
Other comprehensive (expense) income		
Item that may be reclassified subsequently to profit or loss:		
— Exchange differences on translating foreign operations	**(15,315)**	19,364
Total comprehensive expense for the year attributable to owners of the Company	**(59,740)**	(140,574)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**801,774**	419,418
Intangible assets		**83,056**	34,286
Exploration and evaluation assets	*11*	**270**	190
Interests in associates		**—**	—
Available-for-sale financial asset		**—**	—
Other asset		**1,150**	1,150
Prepaid lease payment		**1,057**	697
Deferred tax asset		**16,441**	—
		903,748	455,741
Current assets			
Prepaid lease payment		**24**	15
Trade and bills receivables	*12*	**240,515**	204,348
Inventories		**131,231**	107,018
Other receivables, prepayments and deposits		**89,620**	55,180
Financial assets at fair value through profit or loss ("**FVTPL**")		**84,586**	115,037
Amounts due from associates		**—**	—
Cash and cash equivalents		**65,399**	83,448
		611,375	565,046
Current liabilities			
Trade payables	*13*	**125,605**	108,610
Other payables and accruals		**131,992**	146,885
Contract liabilities		**2,296**	—
Tax liabilities		**894**	15,703
Advances from a Director	*14*	**1,811,728**	1,760,438
Other loan	*14*	**—**	9,064
Convertible notes	*15*	**3,546,397**	—
Deferred income		**1,458**	1,554
		5,620,370	2,042,254
Net current liabilities		**(5,008,995)**	(1,477,208)
Total assets less current liabilities		**(4,105,247)**	(1,021,467)

	Note	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Convertible notes	*15*	**—**	3,019,544
Deferred income		**7,378**	9,054
		7,378	3,028,598
Net liabilities		**(4,112,625)**	(4,050,065)
Financed by:			
Capital and reserves			
Share capital		**37,625**	37,625
Reserves		**(4,150,250)**	(4,087,690)
Capital deficiencies attributable to owners of the Company		**(4,112,625)**	(4,050,065)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2019

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 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.

Given that convertible notes with principal amount of HK$3,467.0 million in aggregate are going to mature on 21 November 2019, the carrying amounts of HK$3,546.4 million relating to convertible notes have been reclassified as current liabilities as at 31 March 2019. Details of convertible notes are set out in Note 15.

In preparing the consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration to the future liquidity of the Group. The Directors have reviewed the Group's cash flow projections prepared by management. The cash flows projections cover a period of not less than 12 months from 31 March 2019 and include below assumptions: (1) 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 31 March 2019, advances from a Director of HK$1,811.7 million comprised principal amount and accrued interest of HK$1,203.3 million and HK$608.4 million respectively. The balance of the unutilised facilities of HK$696.7 million remains valid until 31 March 2021 and Mr. Lo does not intend to demand repayment of the loan until the Company has sufficient cash to make repayment; and (2) the Company will exercise its endeavour to complete the negotiation and reach an agreement with the holders of the convertible notes about the debt refinancing plans before the maturity date of the convertible notes.

While recognising that the Group had net liabilities of approximately HK$4,112.6 million and had net current liabilities of approximately HK$5,009.0 million at 31 March 2019 and incurred a loss of approximately HK$44.4 million for the year then ended, the Directors are of the opinion that, taking into account of the above assumptions, the Group will be able to meet its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

However, should the above debt refinancing plan not be able to implement successfully, the Group may not have sufficient funds to operate as a going concern, in which case adjustments might have to be made to the carrying values of the Company's assets to their recoverable amounts, to reclassify the non-current assets and non-current liabilities as current assets and current liabilities, respectively and to provide for any further liabilities which might arise.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

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

Except as described below, the application of the new and 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.

HKFRS 15 "Revenue from Contracts with Customers"

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 April 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from sale of coal which arises from contracts with customers. The Group's revenue is recognised when the control of goods is transferred, being when the coals are delivered to and accepted by the customers.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in the annual report.

Summary of effects arising from initial application of HKFRS 15

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

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

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

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

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 March 2019 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items not affected by the changes had not been included.

Impact on the consolidated statement of financial position

	As reported	**Reclassification**	**Amounts without application of HKFRS 15**
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Other payables and accruals *(Note)*	131,992	2,296	134,288
Contract liabilities *(Note)*	2,296	(2,296)	—

Note: Under HKAS 18, deposit received in advance from customers on sale of coal of HK$2,296,000 would have been included in other payables and accruals.

Impact on the consolidated statement of cash flows

	As reported	**Reclassification**	**Amounts without application of HKFRS 15**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Decrease in other payables and accruals	(10,163)	148	(10,015)
Increase in contract liabilities	148	(148)	—

HKFRS 9 "Financial Instruments" and the related amendments

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

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

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

Accounting policies resulting from application of HKFRS 9 are disclosed in the annual report.

Summary of effects arising from initial application of HKFRS 9

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

	Available-for-sale financial asset	**Equity instrument at fair value through other comprehensive income ("FVTOCI")**	**Trade and bills receivables**	**Other receivables, prepayments and deposits**	**FVTOCI reserve**	**Translation reserve**	**Accumulated losses**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Closing balance at 31 March 2018 — HKAS 39	—	N/A	204,348	55,180	N/A	7,922	(7,637,778)
Effect arising from initial application of HKFRS 9							
— Reclassification *(Note (a))*							
From available-for-sale financial asset	—	—	—	—	(16,237)	—	16,237
— Remeasurement *(Note (b))*							
Impairment under ECL model	—	—	(1,136)	(1,684)	—	(81)	(2,739)
	N/A	—	203,212	53,496	(16,237)	7,841	(7,624,280)

Notes:

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

The Group elected to present in other comprehensive income for the fair value changes of all its equity instrument previously classified as available-for-sale financial asset related to unquoted equity instrument previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, available-for-sale financial asset which has zero balance was reclassified to equity instrument at FVTOCI. No fair value adjustment relating to this unquoted equity instrument previously carried at cost less impairment was adjusted to equity instrument at FVTOCI and equity as at 1 April 2018 because the carrying value under HKAS 39 approximated its fair value as at 1 April 2018. In addition, impairment losses previously recognised of HK$16,237,000 were transferred from accumulated losses to FVTOCI reserve as at 1 April 2018.

(b) Impairment under ECL model

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

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

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

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

	Trade and bills receivables	**Other receivables, prepayments and deposits**
	HK$'000	*HK$'000*
At 31 March 2018 — HKAS 39	—	(124)
Amounts remeasured	(1,136)	(1,684)
At 1 April 2018	**(1,136)**	**(1,808)**

New and amendments to HKFRSs in issue but not yet effective

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

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[5]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015–2017 Cycle[1]
HKFRS 3 (Amendments)	Definition of a Business[4]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to HKFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modification, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be both presented as financing cash flows by the Group. Upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance with the nature, as appropriate.

Under HKAS 17, the Group has already recognised an asset for prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 March 2019, the Group as lessee had non-cancellable operating lease commitments of HK$3,095,000 as disclosed in the annual report. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$652,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated losses without restating comparative information.

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$429,678,000 (2018: 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 2019:

	Carrying values before reversal of impairment loss *HK$'000*	**Reversal of impairment loss** *HK$'000*	**Carrying values after reversal of impairment loss** *HK$'000*
Property, plant and equipment	**415,593**	**378,791**	**794,384**
Intangible assets	**32,365**	**50,460**	**82,825**
Prepaid lease payment	**654**	**427**	**1,081**
Total	**448,612**	**429,678**	**878,290**

Carrying values for the year ended 31 March 2018:

	Carrying values before reversal of impairment loss *HK$'000*	Reversal of impairment loss *HK$'000*	Carrying values after reversal of impairment loss *HK$'000*
Property, plant and equipment	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 reason for such reversal of impairment loss being recognised in profit or loss for the year ended 31 March 2019 was mainly due to change in predicted average annual growth rate of the coking coal price for the forthcoming four-year period (2018: (i) an increase in price of coking coal; and (ii) the demand of coking coal which was essential for the production of steel continued to be strong due to the boom in automobile manufacturing and property development sectors). All these reasons have had significant impact on the value-in-use assessment performed by the Directors in both years with an increase in cash flows expected to be received.

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 located in the PRC and Mongolia, and is recognised at a point in time when coals are delivered to and accepted by the 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 2019

	Coal mining	**Total**
	HK$'000	***HK$'000***
Segment revenue *(Note (a))*	**776,708**	**776,708**
Segment profit	**698,982**	**698,982**
Unallocated expenses *(Note (b))*		**(60,988)**
Other income		**19**
Other gains and losses		**(30,198)**
Changes in fair value on derivative component of convertible notes		**63,542**
Impairment losses on financial assets		**(17)**
Finance costs		**(735,165)**
Loss before taxation		**(63,825)**

For the year ended 31 March 2018

	Coal mining	Total
	HK$'000	*HK$'000*
Segment revenue	637,362	637,362
Segment profit	368,897	368,897
Unallocated expenses *(Note (b))*		(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 losses on financial assets		(67)
Finance costs		(625,949)
Loss before taxation		(145,014)

Notes:

(a) As at 31 March 2019, all outstanding contracts for sale of coal have an original expected duration of less than one year. As permitted under HKFRS 15, the transaction price allocated to the unsatisfied contracts is not disclosed.

Contract liabilities as at 1 April 2018 of HK$2,289,000 have been recognised as revenue from performance obligation satisfied during the year. For contract liabilities as at 31 March 2019 of HK$2,296,000, as the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

(b) 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 2019

	HK$'000
ASSETS	
Segment assets — coal mining	1,411,311
Financial assets at FVTPL	84,586
Cash and cash equivalents	11,793
Other unallocated assets *(Note (a))*	7,433
Consolidated total assets	1,515,123
LIABILITIES	
Segment liabilities — coal mining	218,558
Convertible notes	3,546,397
Advances from a Director	1,811,728
Other unallocated liabilities *(Note (b))*	51,065
Consolidated total liabilities	5,627,748

As at 31 March 2018

	HK$'000
ASSETS	
Segment assets — coal mining	891,511
Financial assets at FVTPL	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

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

	2019	2018
	HK$'000	*HK$'000*
Capital additions	**24,555**	60,062
Amortisation of intangible assets	**1,714**	1,481
Amortisation of prepaid lease payment	**14**	11
Interest income	**1,419**	355
Depreciation of property, plant and equipment	**19,013**	7,730
Reversal of impairment loss on property, plant and equipment	**(378,791)**	(107,495)
Reversal of impairment loss on intangible assets	**(50,460)**	(8,809)
Reversal of impairment loss on prepaid lease payment	**(427)**	(185)
Loss on disposal of property, plant and equipment	**—**	17

Geographical information

The Group's operations are principally located in Hong Kong, Mongolia and the PRC.

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

	Revenue	
	2019	2018
	HK$'000	*HK$'000*
Mongolia	**2,539**	2,448
The PRC	**774,169**	634,914
	776,708	637,362

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

	Non-current assets	
	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**3,078**	2,804
Mongolia	**849,550**	415,855
The PRC	**34,679**	37,082
	887,307	455,741

Note: Non-current assets exclude financial instruments and deferred tax asset.

Information about major customers

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

	2019	2018
	HK$'000	*HK$'000*
Customer A	**476,105**	281,691
Customer B	**105,512**	190,836
Customer C	**83,633**	N/A
Customer D	**N/A**	125,324

5. OTHER GAINS AND LOSSES

	2019 *HK$'000*	2018 *HK$'000*
Changes in fair value on financial assets at FVTPL	**(30,451)**	(40,566)
(Loss) gain on disposal of property, plant and equipment	**(84)**	46
Net exchange gain (loss)	**3,463**	(2,349)
Others	**—**	(1,383)
	(27,072)	(44,252)

6. FINANCE COSTS

	2019 *HK$'000*	2018 *HK$'000*
Interest on advances from a Director	**144,768**	133,771
Interest on other loan	**100**	472
Effective interest expense on convertible notes *(Note 15)*	**590,395**	492,178
	735,263	626,421

7. LOSS BEFORE TAXATION

	2019 *HK$'000*	2018 *HK$'000*
Loss before taxation has been arrived at after charging/(crediting):		
Directors' emoluments	**16,042**	23,330
Other staff costs:		
Salaries and other benefits (net of reimbursement from a related party)	**80,094**	66,816
Equity-settled share-based payments	**—**	12,252
Retirement benefits scheme contributions (excluding contributions for Directors and net of reimbursement from a related party)	**9,104**	6,942
Total staff costs	**105,240**	109,340
Less: staff costs capitalised in inventories	**(32,796)**	(26,381)
	72,444	82,959
Impairment losses on		
— trade and bills receivables	**1,236**	—
— other receivables	**104**	124
— available-for-sale financial asset	**—**	58
— amount due from an associate	**8**	9
	1,348	191
Amortisation of prepaid lease payment	**14**	11
Amortisation of intangible assets	**1,714**	1,501
Depreciation of property, plant and equipment	**19,572**	8,850
Auditor's remuneration	**3,860**	3,600
Operating lease rental in respect of office premises (net of reimbursement from a related party)	**3,750**	3,278

8. INCOME TAX CREDIT (EXPENSE)

	2019	2018
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax ("**EIT**")	**(3,826)**	(14,924)
Over provision in prior years:		
PRC EIT	**5,810**	—
Deferred taxation	**17,416**	—
	19,400	(14,924)

Hong Kong Profits Tax was calculated at 16.5% at the estimated assessable profit (if any) for both years. No provision for Hong Kong Profits Tax has been made for both years as the Group has no assessable profit arising from operation in Hong Kong.

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 ("**MNT**") 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.

9. DIVIDENDS

No dividend was paid or proposed by the Company during the year ended 31 March 2019 nor has any dividend been proposed since the end of the reporting period (2018: Nil).

10. LOSS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	**44,425**	159,938

	2019	2018
	'000	*'000*
Number of shares		
Number of ordinary shares for the purpose of basic and diluted loss per share	**1,881,258**	1,881,258

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 2017	151	5	156
Addition	—	34	34
At 31 March 2018	151	39	190
Addition	—	80	80
At 31 March 2019	151	119	270

Notes:

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

This iron ore exploration concession has been affected by the Mining Prohibition Law ("**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 ("**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 2019.

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, there is no guarantee that the exploration and the ongoing development of the iron mine could turn the existing exploration licence to mining licence and 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 2019, 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 2019, 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

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**66,547**	46,585
Bills receivables	**159,226**	109,026
Accrued income *(Note)*	**17,045**	48,737
	242,818	204,348
Less: Allowance for credit losses	**(2,303)**	—
	240,515	204,348

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

As details set out in Note 2, as at 1 April 2018, the additional allowance for credit losses of HK$1,136,000 has been recognised against accumulated losses. The additional loss allowance is charged against trade and bills receivables through the loss allowance account. With the aforesaid additional allowance for credit losses of HK$1,136,000, trade and bills receivables, net of allowance for credit losses amounted to HK$203,212,000 under HKFRS 9 as at 1 April 2018.

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

The following is an aged analysis of trade receivables and accrued income net of allowance for credit losses:

	2019	2018
	HK$'000	*HK$'000*
1–30 days	**69,295**	51,056
31–60 days	**13,836**	8,053
61–90 days	**100**	1,445
Over 90 days	**283**	34,768
	83,514	95,322

13. TRADE PAYABLES

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

	2019	2018
	HK$'000	*HK$'000*
0 to 30 days	**56,068**	54,315
31 to 60 days	**12,343**	1,359
61 to 90 days	**—**	506
Over 90 days	**57,194**	52,430
	125,605	108,610

14. BORROWINGS

	2019	2018
	HK$'000	*HK$'000*
Unsecured — at amortised cost		
Advances from a Director *(Note (a))*	**1,811,728**	1,760,438
Other loan *(Note (b))*	**—**	9,064
Convertible notes *(Note 15)*	**3,546,316**	2,955,921
	5,358,044	4,725,423
Analysed for reporting purposes as:		
Current liabilities	**5,358,044**	1,769,502
Non-current liabilities	**—**	2,955,921
	5,358,044	4,725,423

Notes:

(a) 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 Company has sufficient cash to make repayment. The interest expense is charged at the Hong Kong Dollar Prime Rate plus 3% per annum for both years.

(b) The other loan is unsecured and repayable on demand with principal amount of HK$7.4 million which had been fully repaid during the year ended 31 March 2019. The interest expense was charged at 6% per annum.

15. 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**	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of the year	**2,955,921**	2,463,743	**63,623**	298,246	**3,019,544**	2,761,989
Interest charge	**590,395**	492,178	**—**	—	**590,395**	492,178
Changes in fair value on derivative component	**—**	—	**(63,542)**	(234,623)	**(63,542)**	(234,623)
At end of the year	**3,546,316**	2,955,921	**81**	63,623	**3,546,397**	3,019,544

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 a 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 2019 and 2018.

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 2018	**31 March 2019**
Stock price	HK$0.63	HK$0.18	**HK$0.14**
Exercise price	HK$0.92	HK$0.87	**HK$0.87**
Volatility *(Note (a))*	102.00%	83.31%	**61.59%**
Dividend yield	0%	0%	**0%**
Option life *(Note (b))*	5 years	1.64 years	**0.64 years**
Risk free rate	1.23%	1.29%	**1.42%**

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 2019 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 2019.

16. 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 writs of summons on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK$93.7 million. In May 2015, the former mining contractor applied to Court to amend its statements of claim under the two writs by amending, among others, (i) the currency of the claims from Mongolian Tugrik to United States dollars; and (ii) the amount of the claims to include the alleged contractor's fees up to October 2014. According to amended statement of claims, two writs of summons make the total claims at approximately HK$198.9 million, of which approximately HK$50.0 million was provided for in the consolidated financial statements as at 31 March 2019 (2018: 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 below sections set out an extract of the report by Deloitte Touche Tohmatsu ("**Deloitte**"), the independent auditor of the Company, regarding the Group's consolidated financial statements for the year ended 31 March 2019:

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to form an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

As set out in Note 1[*] to the consolidated financial statements, the Group had net liabilities of approximately HK$4,113 million and had net current liabilities of approximately HK$ 5,009 million as at 31 March 2019, including advances from a Director and convertible notes of which the aggregate carrying amount is approximately HK$5,358 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 a director of the Company and the holders of the convertible notes. As further set out in Note 28[**] to the consolidated financial statements, the Company's convertible notes, with carrying amount of approximately HK$3,546 million as at 31 March 2019, have a maturity date of 21 November 2019 and these financial obligations exceed the unutilised facilities provided by the substantial shareholder. Management is currently in negotiation with the existing convertible note holders in relation to the potential refinancing of the convertible notes to allow the Group to continue to meet its financial obligations. However, as the negotiations in respect of these debt refinancing plans are at a preliminary stage, we were unable to assess the likelihood of an agreement being reached, and as such whether the Group will have sufficient finance available to continue to meet its financial obligations.

In view of the significant of the extent of the uncertainty relating to the ongoing availability of finance to the Group, we disclaim our opinion in respect of year ended 31 March 2019.

* *Being Note 1 in this announcement*

** *Being Note 15 in this announcement*

THE COMPANY AND THE AUDIT COMMITTEE'S VIEW AND THE PLAN TO ADDRESS THE DISCLAIMER OF AUDIT OPINION

The fundamental reason for the disclaimer of audit opinion (the "**Disclaimer**") made by the independent auditor for the Financial Year is the uncertainty arising from the soon expiry of convertible notes in November 2019. Despite the fact that the Company would exercise its endeavour to complete the negotiation and reach an agreement with the holders of the convertible notes (the "**Debt Refinancing**"); however, the Debt Refinancing was only at a very preliminary stage at the date the consolidated financial statements were approved and authorized for issue by the Board. Therefore, the independent auditor was unable to form an audit opinion on the consolidated financial statements. For details of the convertible notes, please refer to Note 15 to the consolidated financial statements.

The audit committee of the Company (the "**Audit Committee**") has reviewed the Disclaimer for the Financial Year and has well noted the basis thereof. The management of the Company (the "**Management**") has reviewed the impact of the Disclaimer on the Group and considers that it does not have significant impact on the Group's daily operation subject to the Debt Refinancing could be completed before the expiry of the convertible notes. By reference to the experience gained in a similar debt refinancing exercise successfully completed in 2014, the Management expects the Disclaimer will be removed in the financial year ending 31 March 2020.

There was no disagreement between the views of the Audit Committee and the Management in respect of (i) the Disclaimer and (ii) the Company's plan to address the Disclaimer.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the Financial Year (2018: Nil).

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting (the "**AGM**") of the Company will be held on Tuesday, 27 August 2019. 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 Thursday, 22 August 2019 to Tuesday, 27 August 2019, 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 Tuesday, 27 August 2019, 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 Wednesday, 21 August 2019.

* with effect from 11 July 2019, Tricor Standard Limited will change its address to Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. A formal announcement on change of address of the Company's branch share registrar will be issued in due course.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS ANALYSIS

Revenue

In the Financial Year, the Group's revenue was HK$776.7 million (2018: HK$637.4 million). Revenue was up approximately 21.9% against last year due to the achievement of higher sales volumes and average coking coal prices. During the Financial Year, the Group sold approximately 597,483 tonnes (2018: 520,400 tonnes) of clean coking coal and approximately 78,976 tonnes (2018: 60,500 tonnes) of thermal coal and approximately 166 tonnes (2018: 13,800 tonnes) of raw coal. The average selling prices of clean coking coal, thermal coal and raw coal net of sales tax were approximately HK$1,293.8 (2018: HK$1,200.0), HK$45.3 (2018: HK$52.8) and HK$693.1 (2018: HK$701.1) 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 Year was HK$440.9 million (2018: HK$322.1 million). The increase was due to the higher sales volume, higher transportation costs and additional operating costs at Uyench customs bonded yard ("**Uyench CBY**") incurred in the Financial Year. It was divided into cash costs of HK$431.0 million (2018: HK$315.5 million) and non-cash costs of HK$9.9 million (2018: HK$6.6 million).

Gross Profit

The growth of cost of sales outpaced the growth of revenue accounted for the mild increase of gross profit to HK$335.8 million (2018: HK$315.2 million). Gross profit ratio for the Financial year declined to 43.2% (2018: 49.5%).

Other Gains and Losses

The net loss was mainly due to the fair value loss of HK$30.5 million arising from an investment in a Hong Kong listed company (2018: HK$40.6 million).

Administrative Expenses

Administrative expenses included the following major items: (1) Directors' remuneration and staff costs of HK$72.4 million (2018: HK$83.0 million). The decrease was mainly due to the fact that no share options were granted during the Financial Year therefore no share-based payment expense (2018: HK$21.9 million); and (2) Audit, legal and other professional fees of HK$23.2 million (2018: HK$29.3 million).

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$63.5 million was recognised (2018: HK$234.6 million). The major inputs into the binomial valuation model have been disclosed in the Note (15) 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 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; 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 2019 and 2018 are set out as below:

	Notes	**2019**	2018
Discount rate	*(a)*	**22.67%**	20.52%
Average current coking coal price per tonne	*(b)*	**US$136**	US$143
Inflation rate	*(c)*	**1.78%**	1.9%
Predicted average annual growth rate of the coking coal price for the forthcoming four-year period since year ended	*(d)*	**–3.88%**	–6.24%

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 2019. 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; and

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

(d) The average annual growth rate was updated based on latest publicly available market data. For the remaining period of the discounted cash flow model, the growth rate is the same as the inflation rate.

In pursuant to the recoverable amount assessment, a reversal of impairment amounted to HK$429.7 million was made in the Financial Year (2018: HK$116.5 million).

Finance Costs

The major components in the finance costs were the effective interest expense on convertible notes and interest charge 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 (2018: 19.96%). The interest charge on the advances from a Director was calculated at the Hong Kong prime rate plus 3% per annum, 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.

MARKET REVIEW

Coking coal, also known as metallurgical coal, is principally used in steel industry. It is a vital ingredient in the steel making process. Our coking coal demand is predominantly in China; therefore, the steel market performance in China in turn affects our production and planning.

At the start of 2018, the global economy continued the upward trend from its rebounded performance in 2017, but soon lost its momentum mainly because of the escalation in trade tension between the United States and China and the uncertainties of the United Kingdom leaving the European Union. They brought about uncertainty of trading prospects and investors began to lose their confidence. Entrepreneurs were forced to adopt a wait and see approach in their business strategies, withholding further investment commitments. Due to these factors of uncertainties, the emerging market economies came under pressure. The trend seems to continue to 2019.

The trade tension with the United States has had a negative impact on China's economy. China's gross domestic product ("**GDP**") expanded 6.4% year-on-year in the last quarter of 2018, dragging its annual GDP growth to a new low of 6.6 % which is the lowest level in 28 years. It is, nevertheless, above the official target of around 6.5 %. According to the data of National Bureau of Statistics of China ("**NBS**"), China's industrial output grew by 6.2 % year on year in 2018, down 0.4 % from the previous year. Although it was slower than expected, China still maintained a steady growth last year with sharp expansion recorded in high-tech industries, strategic emerging industries and equipment manufacturing. On the other hand, the mining sector also recorded a moderate growth by 2.3 % last year. Fixed assets investment grew by 5.9% over the previous year and it is the slowest annual growth since 1996.

Although against the backdrop of economic uncertainties, the global crude steel production reached 1,806 million tonnes in 2018, according to the recent data of the World Steel Association. Crude steel production surged in all regions globally except the European Union. China remained the biggest crude steel producing country in the world in 2018, producing 928 million tonnes and accounting for 51.3% of the world's crude steel production, slightly up 1% compared with the same period in 2017.

According to the data of China Customs, steel export of China last year was 69.3 million tonnes, declining 8.1% compared with the previous year while steel import recorded a slight decline of 1% at 13.2 million tonnes. Based on the data of the National Development and Reform Commission. People's Republic of China ("**NDRC**"), the profit realized in the steel industry of China reached RMB470 billion, a 39.3% surge compared with that of 2017. This is due to the result of the Supply-Side Reform to slash 100–150 million tonnes of crude steel nationwide in China during 2016–2020.

Apart from steel, China is also the world's largest coal producer and consumer. The figures relating to coal in general were also satisfactory last year. According to the data of NDRC, China produced 3.5 billion tonnes of coal last year by the coal producers above the designated size (i.e. annual revenue above RMB20 million), a surge of 5.2% compared with the previous year.

At the beginning of April 2018, the Customs of China's major coal importing provinces such as Fujian, Guangdong and Zhejiang began to restrict coal import. Based on the data of the China Customs, coal import of 2018 was 280 million tonnes, an increase of 3.9% while the coal export was 4.9 million tonnes, a decline of 39%. The increase of coal import was mainly due to the domestic coal curb in coal production under the Supply-Side Reform and the growth in the country's power generation sector and higher metallurgical coal demand.

On the side of coking coal, based on the Customs data, the accumulated coking coal import for 2018 was 64.9 million tonnes, a decline of 6.4% compared with that of 2017 while export was 1.1 million tonnes, a decline of 51.2%. Several factors including consolidation of the country's coal industry, Supply-Side Reform and the trade tensions accounted for the decrease. The profit of coal mining and washing industry in China reported a profit of an increase of 5.2% last year at RMB288 billion.

The China government implemented the Supple-Side Reform in 2016 with a view to promoting better environment and preventing air pollution through overcapacity cut of coal and steel domestically. In 2017, China had successfully reduced about 150 million tonnes in its coal production capacity. The Supply-Side Reform continued in 2018 with the plan to slash 150 million tonnes of coal production and the target was well achieved. Due to the limited supply of the coking coal, coking coal prices were stable throughout 2018. Despite the achievement last year, China will stick to supply-side structural reform in 2019, including deleveraging and eliminating excess capacity, to improve the quality of economic growth.

In 2018, trades between China and Mongolia continued to rise. Mongolia's exports to China grew by 13.1% while imports from China by 35.5% according to the data of the Mongolian Customs General Administration. Major export items from Mongolia to China include coal, copper, molybdenum, wool and cashmere. In respect of coal, according to the National Statistics Office of Mongolia, Mongolia produced a record high of 50 million tonnes of coal in 2018, surging 6.2% compared with the previous year. Mongolia is the second largest coking coal supplier to China, just behind Australia. Its total coal export last year was 36.2 million tonnes, increasing 8.6% compared with the previous period, of which 27.7 million tonnes was coking coal shipped to China. As Mongolia borders China, and its low sulphur premium quality coking coal is an important source of supplement to the deficient amount of coking coal required by China's metallurgical sector, Mongolia has a great potential to replace Australia as the largest coking coal supplier to China.

BUSINESS REVIEW

Coal Sales

Despite the drop in overall coking coal imported to China in 2018, the Mongolia's coal exported to China continued to grow in 2018. Therefore, the Group still enjoyed a growth in sales volume.

Coal Production

During the Financial Year, approximately 3,019,000 bank cubic meters ("**BCM**") of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2018: 3,006,000 BCM). Production of coking coal (before processing) and thermal coal were approximately 918,400 tonnes and 854,900 tonnes respectively (2018: 779,500 tonnes and 549,000 tonnes).

Coal Processing

During the Financial Year, approximately 999,000 tonnes of run-of-mine ("**ROM**") coal (2018: 804,900 tonnes) were processed by the dry coal processing plant, producing approximately 776,100 tonnes of raw coking coal (2018: 625,200 tonnes). 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 customers. In Xinjiang, approximately 769,000 tonnes of raw coking coal (2018: 646,500 tonnes) were processed by the washing plant, producing approximately 648,200 tonnes of clean coking coal (2018: 547,400 tonnes). The average recovery rate was 84.3%.

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 have set up a customs bonded yard close to Xinjiang border. The 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 and it serves as a transportation hub for our coal export. During the Financial Year, approximately 575,000 tonnes of raw coking coal were shipped through the Uyench CBY to Xinjiang. The Uyench CBY is important to support the seamless transport of coal to China in particular for the adverse weather conditions.

Customers and Sales

We entered into a master coal supply contract for 2018 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 364,074 tonnes of clean coking coal to this customer during the Financial Year. It accounted for approximately 61.3% 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 2019, we concluded a new master coal supply contract with our major customer in Xinjiang for 2019. Similar to the 2018 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 three 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. Please refer to the section headed "EXPLORATION AND MINING CONCESSIONS OF THE GROUP" in the forthcoming annual report for further details.

Legal and Political Aspects

In 2018, the Mongolian economy demonstrated confident indicators and positive balance in foreign trade. According to the National Statistics Office of Mongolia, Mongolia's GDP growth reached 6.9% in 2018, the highest number for the past 4 years. The government budget balance had also showed a notable surplus for the first time in 8 years. The unemployment rate decreased from 10% in 2016 to 6.9% in 2018. Export revenues increased by 14% whereas the foreign direct investments by 32%. The positive trends in Mongolian economy and social life were noted by international credit rating agencies which upgraded the country's long-term credit rating as "stable" and short-term credit rating at "B".

Some positive and far-reaching political events and volatility resulted in the Parliament's trust vote over the Prime Minister U.Khurelsukh's Cabinet in November 2018. Due to popular public support, the Parliament voted in favour of the current Cabinet. This vote has solidified the support of the Prime Minister by the people, and any change in political appointments would unlikely affect the businesses and ever-improving economic life. At the same time, the launching of a number of anti-corruption and abuse of power investigations involving some politicians was widely welcomed by the public.

The government of Mongolia had initiated a number of actions to promote its administration transparency last year. The revised Law on Civil Service that became effective from January 2019 has a number of provisions to ensure a stable and merit-based bureaucracy and non-politicized civil service structure. Another example is the amendments to the Law on Central and Local Government Procurement in March 2019, aiming at more efficient and transparent procurement guidelines, supporting domestic manufacturers and emphasizing on the "green" procurement.

During the reporting period, the government of Mongolia had implemented the strategy to reform the government system for delivering more efficient and less bureaucratic services to the public. This strategy contemplates significant transition to online public services. As a result, the Parliament of Mongolia adopted 4 new laws relating to government registration of businesses, individuals and properties, and made corresponding amendments to other relevant laws. These laws facilitate more efficient government services by transitioning into providing online services. Under these innovations the wider online networks of all public institutions have been introduced and previous legal overlaps and substantial paperwork have been substantially eliminated.

The improved economic outlook for 2017–2018 and notable GDP growth allowed the Government to take more measures to support welfare of some social groups; therefore, improving the stable atmosphere socially and economically for business investments in Mongolia.

In addition, the reporting period was characterized by various positive developments occurred in the Mongolia-China economic relationship: there was a series of mutual visits of Mongolian and Chinese high-profile officials, joint organization of China-Mongolia business forum in April 2018, and a number of events during which the two countries held talks and exchanged views on strengthening the partnership established between Mongolia and China, deepening mutually beneficial cooperation in infrastructure, railway, mining and other priority sectors and discussed other matters of regional importance. These political efforts of the two countries coincided with notably increased exports of coal from Mongolia. In 2018, the volume of coal exports reached about 36 million tonnes which is the highest number ever recorded.

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 LLC ("**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 Group 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 Mining Prohibition Law ("**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 stakeholders is the key to sustaining business. Our stakeholders are individuals, groups or organisations that affect and/or being 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 and Heavy Industry, the State Specialised Inspection Agency, the Mineral Resources and Petroleum Authority of Mongolia ("**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")

In respect of the claim of US$13.5 million lodged by Thiess since 2013, there have not been any substantial case developments since the exchange of the Supplemental Witness Statements last year. The parties have also yet to agree on the list of Issues to be addressed in the expert report. We will continue to pursue the case to protect our best interest.

FINANCIAL REVIEW

Liquidity and Financial Resources

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group. While recognising that the Group had net liabilities of HK$4,112.6 million and net current liabilities of approximately HK$5,009.0 million as at 31 March 2019, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future given that: (1) Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and chairman of the Company, has provided facilities amounting to HK$1,900.0 million. The balance of the unutilised facilities of HK$696.7 million as at 31 March 2019 remains valid until 31 March 2021; (2) Mr. Lo does not intend to demand immediate repayment of his advances to the Company; and (3) the Company will exercise its best endeavour to reach an acceptable debt refinancing with the holders of the convertible notes on or before their maturity date i.e. 21 November 2019.

During the Financial Year, the Group recorded net cash inflows from operating activities of HK$113.0 million (2018: HK$115.9 million). In order to reduce finance costs incurred in the Financial Year, the Group repaid a total of HK$102.6 million being partial settlement to Mr. Lo and a full repayment of other loan.

The borrowings of the Group as at 31 March 2019 were convertible notes and advances from Mr. Lo in aggregate of HK$5,358.1 million (2018: HK$4,780.0 million). Both of the convertible notes and advances from Mr. Lo are unsecured and classified as current liabilities. As at 31 March 2019, the cash and bank balances of the Group were HK$65.4 million (2018: HK$83.4 million) and the liquidity ratio was 0.11 (2018: 0.28).

Property, Plant and Equipment

The sharp increase in the carrying values of the property, plant and equipment was due to the reversal of impairment loss amounting to HK$378.8 million (2018: HK$107.5 million). During the Financial Year, the Group had incurred capital expenditures of approximately HK$26.1 million (2018: HK$60.9 million).

Trade and Bills Receivables

As at 31 March 2019, trade and bills receivables increased to approximately HK$240.5 million (2018: HK$204.3 million) due to the increase in sales volume. The Group allows a credit period of 30 to 60 days for trade receivables and the maturity dates for bills receivables should be within 180 days or less. As at 31 March 2019, 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 value added tax and corporate income tax receivables of HK$61.5 million and HK$16.8 million respectively (2018: HK$42.0 million and HK$Nil) to be refunded by Mongolian government.

Financial Assets at Fair Value Through Profit or Loss

As at 31 March 2019, the fair value of the financial assets at fair value through profit or loss was HK$84.6 million (2018: HK$115.0 million), which was approximately 5.6% (2018: 11.3%) of the total assets of the Group. It represents the Group's interest in Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "**Jade Bird**"), a company listed in Hong Kong. The principal activities of Jade Bird and its subsidiaries are engaging in the technology research, development, marketing and sale of embedded system products and related products in security and fire alarm systems. The Group's investment is approximately 6.14% of the total issued share capital of Jade Bird. During the Financial Year, the Group did not receive any dividend from Jade Bird. The decrease in carrying value of the financial assets at fair value through profit or loss was mainly due to the fair value loss of HK$30.5 million (2018: HK$40.6 million).

Other Payables and Accruals

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

Contract Liabilities

It represented advanced deposits received from coal customers.

Charge on Group's Assets

There was no charge on the Group's assets as at 31 March 2019 (2018: Nil).

Gearing Ratio

As at 31 March 2019, the gearing ratio of the Group was 3.5 (2018: 4.7) which was calculated based on the Group's total borrowings to total assets.

Foreign Exchange

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

Contingent Liabilities

As at 31 March 2019, there were no material changes to the nature of the Group's contingent liabilities and they were all related to the legal claims made by a former mining contractor in 2013.

OUTLOOK

Notwithstanding the tough external environment, we maintained a stable and satisfactory performance last year. However, in 2019, the global conditions are highly unpredictable which are not within one's grasp. Trade tension between the world's two biggest economies is still lingering and escalating, with no sign of compromise in the near future so far. Sentiment has been declining in the past two quarters. If the negative development continues, the global economies will be rattled and no businesses will be safe from the waves.

According to the Short Range Outlook released by the World Steel Association, global steel demand is forecasted to reach 1,735 million tonnes in 2019, an increase of 1.3% over 2018. However, as uncertainty over the trade environment and volatility in the financial markets have not yet subsided, downside risks to this forecast still exist. China's demand for steel may decelerate under the economic effects and it depends on the government policies to stimulate to boost the steel demands. The economic growth in China in the coming year has been predicted to deteriorate.

China's coking coal market remained firm in the last quarter and the prices were stable due to low production by coking coal mines. However, it is not certain if the conditions could be maintained, and it is also not sure if China's government will cap coal imports or to initiate any import control policies to support domestic producers and stabilize demands. Against such uncertain tides, we will do our best in planning by adopting a prudent and closely-watch approach in our operations and production in response to the ever-changing market conditions.

HUMAN RESOURCES

As at 31 March 2019, excluding site and construction workers directly employed by our contractors, the Group employed 752 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 has 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 nomination policy for recruitment of Board members. In addition, 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.

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

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

COMPLIANCE WITH MODEL CODE FOR SECURITIES 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.

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.

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 throughout the Financial Year. Besides, no incident of non-compliance by the relevant employees was noted by the Company during the reporting period.

REVIEW OF ANNUAL RESULTS ANNOUNCEMENT

The 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 2019 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 the chairman of the Audit Committee and has appropriate professional qualifications, accounting and related financial management expertise.

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, 18 June 2019

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.