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MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2020

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 2020 (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 2020

	Notes	**2020** *HK$'000*	2019 *HK$'000*
Revenue	*4*	**1,124,996**	776,708
Cost of sales		**(645,757)**	(440,910)
Gross profit		**479,239**	335,798
Other income		**6,382**	3,350
Other gains and losses	*5*	**(34,967)**	(27,072)
Administrative expenses		**(169,182)**	(132,510)
Changes in fair value on derivative component of convertible notes	*14(a)*	**377,767**	63,542
Modification gain on convertible notes	*14(a)*	**249,444**	—
Change in fair value of derivative financial instruments	*14(a)*	**797,546**	—
Derecognition gain on convertible notes	*14(a)*	**21,943**	—
Reversal of impairment losses on property, plant and equipment	*3*	**522,439**	378,791
Reversal of impairment losses on intangible assets	*3*	**69,304**	50,460
Reversal of impairment loss on prepaid lease payment	*3*	**—**	427
Reversal of impairment loss on right-of-use assets	*3*	**591**	—
Reversal of impairment loss (impairment loss) on financial assets		**1,335**	(1,348)
Finance costs	*6*	**(800,679)**	(735,263)
Profit (loss) before taxation	*7*	**1,521,162**	(63,825)
Income tax (expense) credit	*8*	**(79,224)**	19,400
Profit (loss) for the year attributable to owners of the Company		**1,441,938**	(44,425)
Earnings (loss) per share attributable to owners of the Company	*10*		(Restated)
— basic earnings (loss) per share (HK$)		**7.66**	(0.24)
— diluted earnings (loss) per share (HK$)		**0.15**	(0.24)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

	2020	2019
	HK$'000	*HK$'000*
Profit (loss) for the year	**1,441,938**	(44,425)
Other comprehensive expense		
Item that may be reclassified subsequently to profit or loss:		
— Exchange differences on translating foreign operations	**(17,495)**	(15,315)
Total comprehensive income (expense) for the year attributable to owners of the Company	**1,424,443**	(59,740)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Notes	2020 HK$'000	2019 HK$'000
Non-current assets			
Property, plant and equipment		**1,373,022**	801,774
Right-of-use assets		**9,839**	—
Intangible assets		**153,709**	83,056
Exploration and evaluation assets		**498**	270
Interest in an associate		**—**	—
Other asset		**1,150**	1,150
Prepaid lease payment		**—**	1,057
Deferred tax assets		**3,499**	16,441
		1,541,717	903,748
Current assets			
Prepaid lease payment		**—**	24
Trade and bills receivables	*11*	**120,365**	240,515
Inventories		**241,365**	131,231
Other receivables, prepayments and deposits		**122,733**	72,798
Prepaid taxation		**4,396**	16,822
Financial asset at fair value through profit or loss ("**FVTPL**")		**51,597**	84,586
Amount due from an associate		**—**	—
Cash and cash equivalents		**61,782**	65,399
		602,238	611,375
Current liabilities			
Trade payables	*12*	**174,607**	125,605
Other payables and accruals		**138,307**	131,992
Contract liabilities		**5,027**	2,296
Tax liabilities		**—**	894
Advances from a Director	*13*	**1,709,372**	1,811,728
Convertible notes	*14(a)*	**—**	3,546,397
Lease liabilities		**6,110**	—
Deferred income		**1,469**	1,458
		2,034,892	5,620,370
Net current liabilities		**(1,432,654)**	(5,008,995)
Total assets less current liabilities		**109,063**	(4,105,247)

	Notes	2020 HK$'000	2019 HK$'000
Non-current liabilities			
Convertible notes	*14(a)*	**2,168,168**	—
Loan note	*13, 14(b)*	**258,725**	—
Deferred income		**6,036**	7,378
Deferred tax liabilities		**27,981**	—
Lease liabilities		**2,115**	—
		2,463,025	7,378
Net liabilities		**(2,353,962)**	(4,112,625)
Financed by:			
Capital and reserves			
Share capital		**3,763**	37,625
Reserves		**(2,357,725)**	(4,150,250)
Capital deficiencies attributable to owners of the Company		**(2,353,962)**	(4,112,625)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

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.

In preparing the consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration to the future liquidity of the Group. While recognising that the Group had net liabilities of approximately HK$2,354.0 million and had net current liabilities of approximately HK$1,432.7 million at 31 March 2020, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future as Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and being the Chairman and Director of the Company, has provided facilities amounting to HK$1,900.0 million by way of advances to the Group. As at 31 March 2020, advances from a Director of HK$1,709.4 million comprised principal amount and accrued interest of HK$963.1 million and HK$746.3 million respectively. The balance of the unutilised facilities of HK$936.9 million remains valid until 31 March 2022 and Mr. Lo does not intend to demand repayment of the loan until the Company has sufficient cash to make repayment. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

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

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

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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 positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases", and the related interpretations.

Definition of a lease

The Group has elected 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 standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

As at 1 April 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.3%.

	1 April 2019
	HK$'000
Operating lease commitments disclosed as at 31 March 2019	3,095
Lease liabilities discounted at relevant incremental borrowing rates	2,913
Less: recognition exemption — low-value assets	(38)
Less: recognition exemption — short-term leases	(322)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 April 2019	2,553
Analysed as	
Current	1,359
Non-current	1,194
	2,553

The carrying amount of right-of-use assets as at 1 April 2019 comprises the following:

	Right-of-use assets
	HK$'000
Right-of-use assets relating to operating leases of office premises recognised upon application of HKFRS 16	2,553
Reclassified from prepaid lease payment *(Note)*	1,081
	3,634
By class:	
Leasehold lands and Leased properties	3,634

Note: Upfront payments for leasehold lands in the People's Republic of China (the "**PRC**") were classified as prepaid lease payment as at 31 March 2019. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payment amounting to HK$24,000 and HK$1,057,000 respectively were reclassified to right-of-use assets. There is no impact of transition to HKFRS 16 on the accumulative losses at 1 April 2019.

The following adjustments were made to the amounts recognised in the consolidated statements of financial position at 1 April 2019. Line-items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 March 2019	Adjustments	Carrying amounts under HKFRS 16 at 1 April 2019
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Prepaid lease payment	1,057	(1,057)	—
Right-of-use assets	—	3,634	3,634
Current assets			
Prepaid lease payment	24	(24)	—
Current liabilities			
Lease liabilities	—	(1,359)	(1,359)
Non-current liabilities			
Lease liabilities	—	(1,194)	(1,194)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 16	COVID-19-Related Rent Concessions[5]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 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
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 June 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, "the Amendments to References to the Conceptual Framework in HKFRS Standards", will be effective for annual periods beginning on or after 1 January 2020.

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

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 April 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referring to the previous versions of the framework. These amendments are effective for the Group's annual period beginning on or after 1 April 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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 right-of-use assets 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$592,334,000 (2019: HK$429,678,000) 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 2020:

	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	**844,495**	**522,439**	**1,366,934**
Intangible assets	**83,957**	**69,304**	**153,261**
Right-of-use assets	**994**	**591**	**1,585**
Total	**929,446**	**592,334**	**1,521,780**

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

The reason for such reversal of impairment loss being recognised in profit or loss for the year ended 31 March 2020 was mainly due to change in predicted average growth rate of the coking coal price for the forthcoming four-year period (2019: change in predicted average growth rate of the coking coal price for the forthcoming four-year period.) This has 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 2020

	Coal mining	**Total**
	HK$'000	*HK$'000*
Segment revenue *(Note (a))*	**1,124,996**	**1,124,996**
Segment profit	**971,397**	**971,397**
Unallocated expenses *(Note (b))*		**(63,284)**
Other income		**23**
Other gains and losses		**(33,083)**
Change in fair value of derivative financial instruments		**797,546**
Changes in fair value on derivative component of convertible notes		**377,767**
Derecognitions gain on convertible notes		**21,943**
Modification gain on convertible notes		**249,444**
Reversal of impairment loss on financial assets		**(4)**
Finance costs		**(800,587)**
Profit before taxation		**1,521,162**

For the year ended 31 March 2019

	Coal mining	Total
	HK$'000	*HK$'000*
Segment revenue	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)

Notes:

(a) As at 31 March 2020, 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 2019 of HK$2,296,000 have been recognised as revenue from performance obligation satisfied during the year. For contract liabilities as at 31 March 2020 of HK$5,027,000, 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 community expenses in respect of funding the relocation of a village in proximity to the Khushuut mine, staff costs for corporate office and legal and professional fees (2019: 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 financial instruments and derivative component of convertible notes, modification gain on convertible notes, gain on derecognition of convertible notes and reversal of impairment loss (impairment loss) on financial assets. 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 2020

	HK$'000
ASSETS	
Segment assets — coal mining	**2,064,076**
Financial asset at FVTPL	**51,597**
Cash and cash equivalents	**11,425**
Other unallocated assets *(Note (a))*	**16,857**
Consolidated total assets	**2,143,955**
LIABILITIES	
Segment liabilities — coal mining	**292,498**
Convertible notes	**2,168,168**
Loan note	**258,725**
Advances from a Director	**1,709,372**
Other unallocated liabilities *(Note (b))*	**69,154**
Consolidated total liabilities	**4,497,917**

As at 31 March 2019

	HK$'000
ASSETS	
Segment assets — coal mining	1,411,311
Financial asset 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

Notes:

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

(b) Other unallocated liabilities mainly represent other payables and accruals and lease liabilities 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

	2020	2019
	HK$'000	*HK$'000*
Capital additions	**81,626**	24,555
Amortisation of intangible assets	**3,482**	1,714
Amortisation of prepaid lease payment	**—**	14
Depreciation of right-of-use assets	**1,283**	—
Interest income	**(620)**	(1,419)
Depreciation of property, plant and equipment	**24,022**	19,013
Reversal of impairment losses on property, plant and equipment	**(522,439)**	(378,791)
Reversal of impairment loss on intangible assets	**(69,304)**	50,460
Reversal of impairment loss on right-of-use assets	**(591)**	—
Reversal of impairment loss on prepaid lease payment	**—**	427

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	
	2020	2019
	HK$'000	*HK$'000*
Mongolia	**2,781**	2,539
The PRC	**1,122,215**	774,169
	1,124,996	776,708

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

	Non-current assets	
	2020	2019
	HK$'000	*HK$'000*
Hong Kong	**8,274**	3,078
Mongolia	**1,476,924**	849,550
The PRC	**53,020**	34,679
	1,538,218	887,307

Note: Non-current assets exclude deferred tax assets.

Information about major customers

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

	2020	2019
	HK$'000	*HK$'000*
Customer A	**732,877**	476,105
Customer B	**N/A**	105,512
Customer C	**N/A**	83,633

5. OTHER GAINS AND LOSSES

	2020	2019
	HK$'000	*HK$'000*
Changes in fair value on financial assets at FVTPL	**(32,989)**	(30,451)
Gain (loss) on disposal of property, plant and equipment	**56**	(84)
Loss on written off of property, plant and equipment	**(4)**	—
Net exchange (loss) gain	**(2,030)**	3,463
	(34,967)	(27,072)

6. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
Interest on advances from a Director	**137,837**	144,768
Interest on other loan	**—**	100
Interest on lease liabilities	**567**	—
Effective interest expense on convertible notes *(Note 14(a))*	**644,190**	590,395
Effective interest expense on loan note *(Note 14(b))*	**18,085**	—
	800,679	735,263

7. PROFIT (LOSS) BEFORE TAXATION

	2020 HK$'000	2019 HK$'000
Profit (loss) before taxation has been arrived at after charging (crediting):		
Directors' emoluments	**18,482**	16,042
Other staff costs:		
Salaries and other benefits (net of reimbursement from a related party)	**93,261**	80,094
Retirement benefits scheme contributions (excluding contributions for Directors and net of reimbursement from a related party)	**11,780**	9,104
Total staff costs	**123,523**	105,240
Less: staff costs capitalised in inventories	**(39,423)**	(32,796)
	84,100	72,444
(Reversal of impairment losses) impairment losses on		
Trade and bills receivables	**(1,534)**	1,236
Other receivables	**195**	104
Amount due from an associate	**4**	8
	(1,335)	1,348
Amortisation of prepaid lease payment	**—**	14
Depreciation of right-of-use assets	**5,335**	—
Amortisation of intangible assets	**3,482**	1,714
Depreciation of property, plant and equipment	**24,654**	19,572
Auditor's remuneration	**3,860**	3,860

8. INCOME TAX EXPENSE (CREDIT)

	2020 HK$'000	2019 HK$'000
Current tax		
PRC Enterprise Income Tax ("**EIT**")	**6,020**	3,826
Mongolian corporate income tax	**26,411**	—
Withholding tax on distributed earnings	**5,619**	—
	38,050	3,826
Under (over) provision in prior years:		
PRC EIT	**48**	(5,810)
Deferred taxation	**41,126**	(17,416)
	79,224	(19,400)

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% 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 2020, nor has any dividend been proposed since the end of the reporting period (2019: Nil).

10. EARNINGS (LOSS) PER SHARE

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

	2020	2019
	HK$'000	*HK$'000*
Profit (loss) attributable to owners of the Company, as used in the calculation of basic earnings (loss) per share	**1,441,938**	(44,425)
Adjusted by:		
Interest on convertible notes	**644,190**	N/A
Modification gain on convertible notes	**(249,444)**	N/A
Change in fair value of derivative financial instruments	**(797,546)**	N/A
Derecognition gain on convertible notes	**(21,943)**	N/A
Changes in fair value on derivative component of convertible notes	**(377,767)**	N/A
Profit (loss) attributable to owners of the Company, as used in the calculation of diluted earnings (loss) per share	**639,428**	(44,425)

	2020	2019
	'000	*'000*
		(Restated)
Number of shares *(Note a)*		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**188,126**	188,126
Effect of dilutive potential ordinary shares *(Note b and c):*		
Convertible notes	**4,076,225**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**4,264,351**	188,126

Notes:

(a) The number of shares for the purpose of calculating the basic and diluted earnings (2019: loss) per share for the years ended 31 March 2020 and 2019 have been adjusted to reflect the Capital Reorganisation as defined and set out in the annual report.

(b) The computation of diluted earnings per share for the year ended 31 March 2020 did not assume the exercise of share options since the adjusted exercise price was greater than the average market price of the Company's share during the outstanding period in 2020.

(c) The computation of diluted loss per share for the year ended 31 March 2019 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. TRADE AND BILLS RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**13,329**	66,547
Bills receivables	**97,135**	159,226
Accrued income *(Note)*	**10,563**	17,045
	121,027	242,818
Less: allowance for credit losses	**(662)**	(2,303)
	120,365	240,515

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

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

As at 1 April 2018, trade receivable from contracts with customers amounted to HK$46,585,000.

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

	2020	2019
	HK$'000	*HK$'000*
1–30 days	**35,916**	112,092
31–60 days	**318**	58,359
61–90 days	**39,181**	8,233
Over 90 days	**44,950**	61,831
	120,365	240,515

12. TRADE PAYABLES

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

	2020	2019
	HK$'000	*HK$'000*
0 to 30 days	**43,437**	56,068
31 to 60 days	**29,968**	12,343
61 to 90 days	**21,414**	—
Over 90 days	**79,788**	57,194
	174,607	125,605

13. BORROWINGS

	2020	2019
	HK$'000	*HK$'000*
Unsecured — at amortised cost		
Advances from a Director *(Note)*	**1,709,372**	1,811,728
Convertible notes *(Note 14(a))*	**1,493,058**	3,546,316
Loan note *(Note 14(b))*	**258,725**	—
	3,461,155	5,358,044
Analysed for reporting purposes as:		
Current liabilities	**1,709,372**	5,358,044
Non-current liabilities	**1,751,783**	—
	3,461,155	5,358,044

Note:

The advances are related to the facility granted by Mr. Lo as set out in Note 1. The amounts are unsecured and repayable on demand. Mr. Lo does not intend to demand repayment until the Company has sufficient cash to make repayment. The interest expense is charged at the Hong Kong Dollar Prime Rate plus 3% for both years.

14. CONVERTIBLE NOTES AND LOAN NOTE

(a) 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	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of the year	**3,546,316**	2,955,921	**81**	63,623	**3,546,397**	3,019,544
Issuance of convertible notes	**1,473,848**	—	**1,052,796**	—	**2,526,644**	—
Modification gain on the GI and CTF Convertible Notes	**(249,444)**	—	**—**	—	**(249,444)**	—
Interest charge	**644,190**	590,395	**—**	—	**644,190**	590,395
Transaction costs on issuance of convertible notes	**(859)**	—	**—**	—	**(859)**	—
Changes in fair value on derivative component	**—**	—	**(377,767)**	(63,542)	**(377,767)**	(63,542)
Derecognition of the 3% ZV Convertible Note *(Note 14(b))*	**(574,860)**	—	**—**	—	**(574,860)**	—
Derecognition of the 3% CTF and 3% GI Convertible Notes	**(3,346,133)**	—	**—**	—	**(3,346,133)**	—
At end of the year	**1,493,058**	3,546,316	**675,110**	81	**2,168,168**	3,546,397

2020 Convertible Notes with maturity date 6 March 2025

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

CTF and Golden Infinity Convertible Notes

On 21 November 2019, the Company entered into standstill agreements with CTF and Golden Infinity respectively to extend the time of repayment of all amounts outstanding under the 3% GI Convertible Note and 3% CTF Convertible Note from 21 November 2019 to 21 May 2020. The conversion options expired on 21 November 2019. A modification gain of HK$249,444,000 was recognised in profit and loss in relation to this non-substantial convertible notes modification.

On 28 November 2019, the Company entered into subscription agreements with CTF and Golden Infinity, which conditionally agreed to subscribe for the new 5-year 3% convertible notes subject to the fulfilment of certain conditions. The new convertible notes would have an aggregate principal amount equal to the outstanding principal amount plus accrued interest under the 3% GI Convertible Note and the 3% CTF Convertible Note as at the issue date of the new convertible notes.

Details of the subscriptions are set out in the announcement issued by the Company on 28 November 2019.

On 6 March 2020, the Company issued convertible notes with a principal of HK$2,809,671,052 and 628,387,371 to CTF and Golden Infinity respectively (the "**2020 Convertible Notes**"). The commitment by the Group to issue, and by the 2020 Convertible Notes holders to subscribe for, the 2020 Convertible Notes was accounted for as a derivative from 28 November 2019 to 6 March 2020 with a cumulative fair value gain of HK$797,546,000 recognised in profit and loss.

The standstill agreements with CTF and Golden Infinity expired on 6 March 2020. The 3% GI Convertible Note, the 3% CTF Convertible Note as well as the aforementioned derivative to issue the 2020 Convertible Notes were derecognised on the same date, resulting in a derecognition gain of HK$21,943,000 recognised in profit or loss.

The 2020 Convertible Notes with principal amount of HK$3,438,058,423 have a maturity period of five years from the issue date to 6 March 2025. They can be converted into 1 ordinary share of the Company of HK$0.02 each for every HK$1.2 at the holders' option at any time since the issue date up to the date immediately prior to their maturity date. The outstanding principal amount would be redeemed at par value on the maturity date or at the issuer's option redeemed at par plus outstanding coupon payment at any time between the issue date and the maturity date. Interest of 3% per annum will be paid in arrears on the maturity date. No cash flows resulted from this transaction other than the payment of transaction costs amounting to HK$859,000.

The 2020 Convertible Notes contain two components, a debt component and a derivative component with a conversion option derivative of the holders and a prepayment option derivative of the issuer. The effective interest rate of the debt component is 21.82%. The conversion option derivative held by the holders is measured at fair value with changes in fair value recognised in profit or loss as the conversion options does not meet the fixed-for-fixed criteria. Furthermore, the Company may at any time before the maturity date by written notices to the holders, redeem the principal amount at 2020 Convertible Notes (in whole or in part) with accrued interest. The fair value of the prepayment option held by the Group was immaterial as at 6 March 2020 and 31 March 2020.

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

	6 March 2020	**31 March 2020**
Stock price	HK$0.63	HK$0.44
Exercise price	HK$1.2	HK$1.2
Volatility *(Note (i))*	71.98%	74.19%
Dividend yield	0%	0%
Option life *(Note (ii))*	5 years	4.93 years
Risk free rate	0.67%	0.57%

Notes:

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

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

The fair value of the derivative component of 2020 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 2020.

ZV Convertible Notes

Details of ZV Convertible Notes are set out in Note 14(b).

2014 Convertible Notes with maturity date 21 November 2019

In prior years, the Company issued HK$200 million 5% convertible note to 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**"), HK$2 billion 3% convertible note to CTF (the "**3% CTF Convertible Note**") and HK$466.8 million 3.5% convertible notes to other parties (the "**3.5% OZ Convertible Note**").

On 19 September 2014, the Company entered into the subscription agreements with CTF, Golden Infinity and the holders of 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, 3% 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. They could be converted into 1 ordinary share of the Company of HK$0.02 each for every HK$0.87 (adjusted) 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 contained 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 was measured at fair value with changes in fair value recognised in profit or loss as the conversion options does not meet the fixed-for-fixed criteria. Furthermore, the Company may at any time before the maturity date by written notices to the holders, redeem the principal amount of 2014 Convertible Notes (in whole or in part) with accrued interest. The fair value of the derivative component with a callable option derivative considered was immaterial as at 31 March 2019.

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

	31 March 2019
Stock price	HK$0.14
Exercise price	HK$0.87
Volatility *(Note (i))*	61.59%
Dividend yield	0%
Option life *(Note (ii))*	0.64 years
Risk free rate	1.42%

Notes:

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

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

(b) Loan note

The 3% ZV Convertible Note matured on 21 November 2019. On 21 November 2019, Mr. Lo took up the full amount owing to the 3% ZV Convertible Note holder through Ruby Pioneer Limited ("**Ruby Pioneer**"). Ruby Pioneer is a wholly-owned company of Mr. Lo. Immediately after the taking up, the Company and Ruby Pioneer entered into a standstill agreement pursuant to which Ruby Pioneer agreed to extend the note for five years from 21 November 2019 to 21 November 2024 at coupon rate of 3% per annum ("**RP Note**"). This transaction is accounted for as an extinguishment of the 3% ZV Convertible Note and the recognition of the new loan note to Ruby Pioneer. The new loan note is unsecured and has an effective interest rate of 22.37%. A derecognition gain of HK$334,220,000 is recognised directly in equity as a deemed capital contribution from Mr. Lo. No cash flows resulted from this transaction.

15. CONTINGENT LIABILITIES

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

The former mining contractor issued two 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, total claims under the two writs were at approximately HK$198.9 million. The two actions were subsequently consolidated and the amount claimed has been reduced to approximately HK$105.6 million and approximately HK$50.0 million was provided for in the consolidated financial statements as at 31 March 2020 (2019: 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.

16. OTHER MATTERS

The outbreak of COVID-19 across the world and the quarantine measures imposed by governments in different countries continued to have severe negative impact on the operations of the Group. The Group had temporary suspension of coal export from Mongolia to the PRC since February 2020 due to the border restrictions in an effort to prevent the spread of the epidemic.

In order to alleviate the negative financial impact under the export restrictions and preserve the Group's working capital, the Group has ceased major field mining operations including overburden removal and coal extraction and placed part of the mining workforce on furlough until further notice.

Even though the Group has resumed coal export from Mongolia to the PRC at the end of May, the Group is still not operating at normal capacity. The PRC has implemented stringent pandemic control inspection measures for all import and customs activities through the border point and the stringent border-crossing process is still under trial.

The impact of COVID-19 has been taken into account in the preparation of these consolidated financial statements. As the situation remains fluid as at the date these financial statements are authorised for issue, the directors of the Company considered that the financial effects of COVID-19 may further impact on the Group's future performance.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 March 2020 as set out in this announcement have been agreed by the Company's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year as approved by the Board on 24 June 2020. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

AUDIT OPINION

The Company's auditor has issued an unmodified opinion on the consolidated financial statements of the Group for the year ended 31 March 2020 with a Material Uncertainty Related to Going Concern section in the independent auditor's report as set out below:

EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

Material Uncertainty Related to Going Concern

We draw attention in Note 1 to the consolidated financial statements which inclicates that as at 31 March 2020, the Group had net liabilities of approximately HK$2,354.0 million and net current liabilities of approximately HK$1,432.7 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. If the finance were not available, the Group would be unable to meet its financial obligations as and when they fall due. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the Financial Year (2019: Nil).

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting (the "**AGM**") of the Company will be held on Friday, 28 August 2020. The notice of the AGM will be published and despatched to the shareholders of the Company in the manner as required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in due course.

The register of members of the Company will be closed from Tuesday, 25 August 2020 to Friday, 28 August 2020, both days inclusive. During such period, no transfer of shares of the Company will be registered. For the purpose of ascertaining the members' entitlement to attend and vote at the AGM of the Company to be held on Friday, 28 August 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 24 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS ANALYSIS

Revenue

In the Financial Year, the Group's revenue was HK$1,125.0 million (2019: HK$776.7 million). Revenue was up approximately 44.8% against last year mainly driven by higher sales volumes. During the Financial Year, the Group sold approximately 887,200 tonnes (2019: 597,500 tonnes) of clean coking coal and approximately 155,900 tonnes (2019: 79,000 tonnes) of thermal coal and approximately 105 tonnes (2019: 166 tonnes) of raw coal. The average selling prices of clean coking coal, thermal coal and raw coal net of sales tax were approximately HK$1,261 (2019: HK$1,294), HK$42 (2019: HK$45) and HK$695 (2019: HK$693) 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$645.8 million (2019: HK$440.9 million). The increase was in tandem with the higher sales volume achieved in the Financial Year. It was divided into cash costs of HK$629.0 million (2019: HK$431.0 million) and non-cash costs of HK$16.7 million (2019: HK$9.9 million).

Gross Profit

Gross profit ratio for the Financial Year was declined to 42.6% (2019: 43.2%). The drop in average selling prices accounted for the reduction in gross profit ratio.

Other Gains and Losses

The net loss was mainly due to the fair value loss of HK$33.0 million arising from an investment in a Hong Kong listed company (2019: HK$30.5 million).

Administrative Expenses

Administrative expenses were relatively stable after taking into accounts of the increase in sales activities. Apart from the general increase during the Financial Year, it was mainly contributed by the increase in community expenses of HK$22.6 million (2019: HK$1.8 million) in respect of funding the relocation of a village in proximity to the Khushuut mine.

Gains related to Issuance of 2020 Convertible Notes and Redemption of 2014 Convertible Notes

In prior years, the Company issued HK$2,424.8 million 3% convertible note to Chow Tai Fook Nominee Limited ("**CTF**") (the "**3% CTF Convertible Note**") and HK$542.3 million 3% convertible note to Golden Infinity Co., Ltd. ("**Golden Infinity**") (the "**3% GI Convertible Note**"). These convertible notes (the "**2014 Convertible Notes**") were matured on 21 November 2019. On 28 November 2019, the Company entered into the subscription agreements of new convertible notes with

CTF and Golden Infinity respectively to fully repay the 2014 Convertible Notes. On 6 March 2020, the Company issued new convertible notes with a principal of HK$2,809.7 million and HK$628.4 million to CTF and Golden Infinity respectively (the "**2020 Convertible Notes**").

(a) ***Changes in Fair Value on Derivative Component of Convertible Notes***

The Convertible Notes issued by the Company during the Financial Year containing both debt and conversion option derivative components. At the date of issue (i.e. 6 March 2020), both the debt and conversion option components were recognized at fair value. The conversion option derivative of 2020 Convertible Notes requires remeasurement at the end of each reporting period and a resulting gain in fair value change amounting to HK$377.8 million was then recognized in the Financial Year. The major inputs into the binomial valuation model for the valuation of the derivative component have been disclosed in Note 14(a) to the consolidated financial statements.

(b) ***Modification Gain on Convertible Notes***

On 21 November 2019, the Company entered into standstill agreements with CTF and Golden Infinity respectively to extend the repayment date of all amounts outstanding under the 2014 Convertible Notes to 21 May 2020. However, the conversion options for the 2014 Convertible Notes were already expired on 21 November 2019 and therefore non-extendable. By such amendment, a modification gain of HK$249.4 million was recognised in profit and loss in relation to this non-substantial modification to the 2014 Convertible Notes. The difference between the present values of the 2014 Convertible notes as at 21 November 2019 based on their effective interest rate (i.e. 19.96%) and their then carrying book values were recognised as modification gain.

(c) ***Change in Fair Value of Derivative Financial Instruments***

The standstill agreement included a commitment under which the Company intended to issue, and CTF and Golden Infinity intended to subscribe for, the 2020 Convertible Notes. The commitment is accounted for as a derivative and it was derecognised on 6 March 2020. It represented the difference in derecognition of the carrying book values of 2014 Convertible Notes and the fair values of the derivative component of the 2020 Convertible Notes as at 6 March 2020.

(d) ***Derecognition gain on convertible notes***

The aforementioned derivative in (c) above to issue the 2020 Convertible Notes was derecognized on 6 March 2020 instead of 21 May 2020. Accordingly, a derecognition gain of HK$21.9 million was recorded in profit or loss.

The gains in (a) to (d) above are accounting treatments and non-cash in nature which will not have any impact on the cash flow of the Group.

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 2020 and 2019 are set out as below:

	Notes	**2020**	2019
Discount rate	*(a)*	**25.09%**	22.67%
Average current coking coal price per tonne	*(b)*	**US$133**	US$136
Inflation rate	*(c)*	**2.38%**	1.78%
Predicted average annual growth rate of the coking coal price for the forthcoming four-year period since year ended	*(d)*	**0.18%**	–3.88%

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 2020. 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;

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

(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$592.3 million was made in the Financial Year (2019: reversal of HK$429.7 million).

Finance Costs

The major components in the finance costs were the effective interest expenses on convertible notes, interest charge on advances from a Director and a loan note. The interest charge on the debt component of the convertible notes issued by the Company was calculated at an effective interest rate of 21.82% per annum. 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 interest of the loan note is charged at effective interest rate of 22.37% per annum.

MARKET REVIEW

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

Global economic growth in 2019 was the weakest since the global financial crisis a decade ago. Rising trade barriers, geopolitical tensions and the emerging market economies continued to weigh on trade sentiment and investment confidence. The two main factors remained: the US-China trade war and the no deal Brexit. However, economic uncertainties have been alleviated as a result of the signing of the partial agreement between the US and China in January 2020. On the other hand, the leaving of the United Kingdom from the European Union on 31 January 2020 also helps ease market uncertainties. However, while the twilight was seen, the unforeseeable coronavirus pandemic quietly set in, creating an almost unprecedented impact on the world in every aspect.

China's gross domestic product ("**GDP**") grew by 6.1% in 2019 which is not surprising the slowest pace in 29 years amid trade pressure from the US and sluggish demand from home and abroad. It is, nevertheless, within the government target of 6% to 6.5%. China's industrial production continued to grow and high-tech manufacturing and strategic emerging industries developed fast last year. According to the data of National Bureau of Statistics of China ("**NBS**"), industrial output, an important economic indicator, grew by 5.7 % year on year in 2019, down 0.4% from the previous year. The fastest growing sector was the production and supply of electricity, thermal power, gas and water which reported a year-on-year increase of 7 % in 2019, followed by the manufacturing sector with output growth of 6 % year on year, and the mining sector with 5% growth.

Due to the slight increase of operational costs, the profit of coal mining and washing industry in China last year was RMB283 billion, a decline of 2.4% year on year. In respect of fixed asset investment in 2019, China's national fixed asset investment (excluding rural households) recorded an increase of 5.4% over the prior year, and has been the slowest annual growth since 1996. In terms of industries, the investment in the mining industry recorded a notable increase compared with other industries by a surge of 24.1%.

The global crude steel production was approximately 1,869 million tonnes in 2019, a surge of 3.4% compared with the prior year, according to the data of the World Steel Association. Although there was a slight increase, crude steel production contracted in all regions globally except in Asia and the Middle East. China remained the largest crude steel producing country in the world in 2019, producing 996 million tonnes and accounting for 53.3% of the world's crude steel production which was an increase of 2.4% compared with the same period in 2018. The high demand of steel was due to the resilient property market and the ongoing infrastructure spending by the Chinese government.

According to the data of China Customs, steel export of China last year was 64.3 million tonnes, declining 7.3% compared with the previous year while steel import also recorded a decline of 6.5% at 12.3 million tonnes. Based on the data of the National Development and Reform Commission, People's Republic of China ("**NDRC**"), the realized profit in the steel industry of China was RMB 189 billion, a decline of 30.9% year on year. The result was due to the increase of supply in steel production, hence, the fall of the steel price and the increase in costs of the iron ores.

Apart from steel, China is also the world's largest coal producer and consumer. The figures relating to the coal sector were steady in general last year. According to the data of NBS, China produced 3.85 billion tonnes of coal last year by coal producers, a surge of 4% compared with the prior year.

In recent years, imported coal has gradually become an important regulator for the domestic coal market, stabilizing coal prices and ensuring balance between coal supply and demand. Coal import controls, including coal import quotas at certain ports, were practiced in China since 2018, causing a coal import plunge compared with prior years. However, in 2019, it was the Government policy of China to boost its economy and hence relaxing the coal import curb policy. Such move would help maintain a moderate coal price and cut electricity prices, and therefore, reducing the energy costs for its enterprises. Based on the data of the China Customs, coal import of 2019 was 299 million tonnes, an increase of 6.3% while the coal export also recorded an increase of 22.1% year on year at 6.02 million tonnes. In the first quarter of 2020, coal import of China amounted to approximately 95.7 million tonnes, a surge of 28.4% compared with the same period of 2019.

The Chinese steel sector accounts for two-thirds of global coking coal consumption. According to the data of China Customs, the accumulated coking coal import for 2019 was 74.5 million tonnes, an increase of 14% compared with that of 2018 while export was 1.4 million tonnes, also an increase of 29.5%. The increase in import of coking coal was mainly supported by the robust growth in steel production and the Supply Side Reform.

The natural resources export is one of the largest contributors to the Mongolia's economy. Major export items from Mongolia to China include coal, copper, molybdenum, wool and cashmere. According to the National Statistics Office of Mongolia, growth in coal production and export were only recorded a moderate increase in 2019. Mongolia produced 50.83 million tonnes of coal in 2019, a slight increase of 1.7% compared with the prior year. Based on the data of the National Statistics Office of Mongolia, coal export of Mongolia last year was 36.6 million tonnes, which is a slight increase of 1%.

Coking coal of Mongolia is important to the steel making industry of China. The coking coal import from Mongolia accounted for 30 to 50% of China's total coking coal import each month in 2019. The import growth outpaced Australia last year in that the annual coking coal import into China from Mongolia increased to 33.8 million tonnes while only 30.9 million tonnes were imported from Australia.

As Mongolia's economy has been badly hit as a result of the coronavirus pandemic in the first half of 2020, we foresee that Mongolia will actively promote its mineral exports in the second half of this year to stabilize its economy. On the other hand, though China is gradually recovering from the pandemic, the external environment remains uncertain. It is likely that China will continue its coal import control practices; therefore, the amount of coal to be imported for 2020 is anticipated to be 6% lower that of 2019, and is estimated to be 282 million tonnes, of which 72 million tonnes would be import of coking coal.

BUSINESS REVIEW

Coal Sales

Although the last quarter performance of the Financial Year was affected by COVID-19, in general, the Group still benefitted from the strong demand of coking coal in China. We recorded a revenue of HK$1,125.0 million from the sales of coking coal and thermal coal to our customers in China and Mongolia, a surge of 44.8% compared with the last corresponding period.

Coal Production

During the Financial Year, approximately 8,933,100 bank cubic meters ("**BCM**") of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2019: 3,019,000 BCM). Production of coking coal (before processing) and thermal coal were approximately 1,617,800 tonnes and 349,600 tonnes respectively (2019: 918,400 tonnes and 854,900 tonnes).

Coal Processing

During the Financial Year, approximately 1,567,300 tonnes of ROM coal (2019: 999,000 tonnes) were processed by the dry coal processing plant, producing approximately 1,263,300 tonnes of raw coking coal (2019: 776,100 tonnes). The average recovery rate was 80.6%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customers. In Xinjiang, approximately 1,206,400 tonnes of raw coking coal (2019: 769,000 tonnes) were processed by the washing plant, producing approximately 932,500 tonnes of clean coking coal (2019: 648,200 tonnes). The average recovery rate was 77.3%.

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.

During the Financial Year, approximately 1,158,600 tonnes of raw coking coal were shipped from Mongolia to Xinjiang.

Customers and Sales

We entered into a master coal supply contract for 2019 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 572,500 tonnes of clean coking coal to this customer during the Financial Year. It accounted for approximately 64.7% 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 general, our production and shipment of coal are closely linked to the market and other conditions, and shipment negotiations between us and the customers from time to time. We will closely monitor the developments and adjust our operation schedule from time to time.

Apart from our 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 annual report for further details.

Legal and Political Aspects

Mongolia had a prosperous economy during 2019 due to the strong performance of its mineral resources exports. "Mongolia enjoyed a solid economic recovery in the past three years, but the COVID-19 outbreak presents a significant challenge due to the impact on global and regional economic conditions," reports the Asian Development Bank Outlook report (www.adb.org/publications/asian-development-outlook-2020-innovation-asia). Due to the impact of the disease globally, Mongolia's economic growth is expected to fall sharply in 2020 but rebound in 2021 when the pandemic subsides. The Mongolian Government's response to the disease has been winning overwhelming public support and appreciation and has triggered widespread of donations from private companies and individuals to the Government's COVID-19 combat fund. As early as mid-February this year, the Mongolian Government has taken decisive measures to prevent the outbreak of the COVID-19 in the country. The national lunar holiday Tsagaan Sar was cancelled in February 2020, and travels between the capital Ulaanbaatar and other provinces had been stopped. Additionally, Mongolia closed its borders with China and Russia, stopping inflow and outflow of people, and banned international flights, firstly, from China and South Korea, and, subsequently it extended to all international flights. Mineral exports to China had also been halted. The lockdown has been gradually lifted since March 2020 including re-opening the borders for mineral exports when the conditions improved.

For meeting emergency needs in the face of the pandemic and to better prepare for future health crises, the World Bank approved US$26.9 million for the Mongolia COVID-19 emergency response and health system in early April, 2020.

In November 2019, the Mongolia parliament passed the constitutional amendments which include provisions signifying that the nation shall distribute the majority of benefits generated from large mining projects, namely 'strategic mineral deposits' (potential or operating mines of significance to the national economy) to its citizen equally and fairly. The amendments are largely symbolic which have already been specified and being enforced through the government policies in the mining industry and in the current Mineral Resources Law. Our operation is not affected by the constitutional amendments.

In addition, the constitutional amendments present a better clarified balance of power between the prime minister and president in a hybrid parliamentary-presidential system. Before this, the Mongolia president, who usually comes from the political party in opposition, is able to veto legislation passed by the parliament headed by the prime minister. The system has made it difficult for the governments to implement their agenda. Under these amendments, these will tip the balance of power in favour of the prime minister, giving the office full authority to appoint and dismiss the cabinet and weakening the role of the president. In addition, the parliament will be given more power to oversee the budget of the country.

As a result of the constitutional court's decision, the amendments in March 2019 to the Minerals Law relating to royalty payments were held in contradiction with the Mongolia constitution. The decision sparked much debates on the royalty related issues and the parliament was trying to fix the chaos. In February 2020, the parliament amended the Minerals Law focusing on Article 47 of the Minerals Law. Prior to the amendment, royalties applied only to mineral license holders. The Minerals Law now extends to any person (i) selling minerals; (ii) shipping minerals for sale; and (iii) using minerals, but the conflicting wordings relating to double charging against mining licence holders have been removed. Our operation is not affected by the newly amended Minerals Law.

Adopted in March 2019, the new editions of the General Tax Law, Corporate Income Tax Law, Value Added Tax Law and Personal Income Tax Law became effective from January 2020. The relevant authorities issued a number of new auxiliary regulations in 2019. The aim of these regulations is to provide more detailed provisions in the tax reform and give a practical guidance on how some of those provisions apply.

Gaining much public popularity and support in 2019, efforts of the Mongolian Government to protect the country's natural environment damaged by illegal mining operations continued. In January 2020, the cabinet of Mongolia approved a number of important procedures to strengthen its management of mining and exploration licenses. For example, the Cabinet resolution No. 6 of 2020 set up the ecological police (in addition to the existing regular police and traffic police) to track and prevent illegal mining. Further, the existing online geological and licensing information database now operated by the Minerals Resources and Petroleum Authority of Mongolia will be expanded, making better accessibility to the general public and directly connected to the country's land management database as well as to the online systems operated by General Department of Taxation, Customs General Administration and National Police Agency. The regulations concerning environmental restoration works at mines are being reviewed against the requirements of using modern technologies for restoration works and imposing penalties on the violators of environmental laws.

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 and mitigate impacts at all stages of our operations; regularly assessing our performance through evaluating our business processes and practices and monitoring the surrounding environment in which we operate.

Our business operation is mainly carried out by MoEnCo in Mongolia. MoEnCo has a detailed environmental assessment of the Khushuut Mine covering five years environmental management and protection related matters in our mine operation. 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 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 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 in May 2018. 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 of the future liquidity of the Group. While recognising that the Group had net liabilities of HK$2,354.0 million and net current liabilities of approximately HK$1,432.7 million as at 31 March 2020, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future given that: (1) Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder and chairman of the Company who has significant influence over the Group, has provided facilities amounting to HK$1,900.0 million. The balance of the unutilised facilities of HK$936.9 million as at 31 March 2020 remains valid until 31 March 2022; and (2) Mr. Lo does not intend to demand immediate repayment of his advances to the Company. The borrowings of the Group as at 31 March 2020 were convertible notes, loan note and advances from Mr. Lo in aggregate of HK$4,136.3 million (2019: HK$5,358.1 million). Apart from advances from Mr. Lo which are unsecured and classified as current liabilities, the convertible notes and loan note are classified as non-current liabilities. As at 31 March 2020, the cash and bank balances of the Group were HK$61.8 million (2019: HK$65.4 million) and the liquidity ratio was 0.30 (2019: 0.11).

Property, Plant and Equipment

The increase in the carrying values of the property, plant and equipment was due to the reversal of impairment loss amounting to HK$592.3 million (2019: reversal of HK$429.7 million). During the Financial Year, the Group had incurred capital expenditures of approximately HK$81.8 million (2019: HK$26.1 million).

Trade and Bills Receivables

As at 31 March 2020, trade and bills receivables decreased to approximately HK$120.4 million (2019: HK$240.5 million) due to the business operation was almost brought to a standstill by the worldwide outbreak of COVID-19 pandemic in the last quarter of the Financial Year. 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 2020 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.

Inventories

The outbreak of COVID-19 causing the interruption in the coal export from Mongolia to our washing plant in Xianjiang in the final quarter of the Financial Year. At the year end date, a total of approximately 180,000 tonnes of dry processed coal was stockpiled in Khushuut pending the lifting of coal export restriction between Mongolia and PRC. This accounted for more than 80% jump in the inventories figures when compared with the last financial year.

Other Receivables, Prepayments and Deposits

It mainly comprised value added tax of HK$106.2 million (2019: HK$61.2 million) to be refunded by Mongolian government.

Financial Assets at Fair Value Through Profit or Loss

As at 31 March 2020, the fair value of the financial assets at fair value through profit or loss was HK$51.6 million (2019: HK$84.6 million), which was approximately 2.4% (2019: 5.6%) of the total assets of the Group. It represents the Group's interest in Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "Jade Bird"), a company listed in Hong Kong. The principal activities of Jade Bird and its subsidiaries are engaging in the technology research, development, marketing and sale of embedded system products and related products in security and fire alarm systems. The Group's investment is approximately 6.13% (2019: 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$33.0 million (2019: HK$30.5 million).

Trade Payables

The increase in trade payables at the year end date when compared with last financial year was in line with the increase in revenue.

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 represented advanced deposits received from coal customers. There was no charge on the Group's assets as at 31 March 2020 (2019: Nil).

Gearing Ratio

As at 31 March 2020, the gearing ratio of the Group was 1.9 (2019: 3.5) 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 2020, 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

At the time of this announcement, the COVID-19 pandemic has yet been over, though many countries has gradually lifted the lockdown and businesses resumed. The pandemic is expected to plunge a majority of countries into recession this year. Yet, it is not known how deep the impact will cut. With the Sino-US tensions continue to escalate, and the economic landscape is highly uncertain this year.

As a result of the pandemic, the World Bank Group in its latest Global Economic Prospect pointed out that the global economy is projected to contract sharply by 5.2% in 2020, while the International Monetary Fund predicted a shrink of 3%. This is the deepest recession since the Second World War. The World Bank Group further pointed out that on the assumption the outbreak remains under control and activity recovers later this year, the Chinese economy is expected to grow by 1% this year. China is the first country to step out of the lockdown, and its economy is gradually recovering. However, global weakness will slow China's recovery.

Under the blockage effect, production of coal had been seriously disrupted in China in early time of 2020. Coal production declined by approximately 6% in the first two months this year as workers were unable to return work under the pandemic and only half of China's mines were operational. According to the data of NBS, the raw coal production in the first two months of China was 490 million tonnes, down 6.3% year-on-year. In March, over 80% of China's coal mining capacity was restored. It is forecasted that coal production in China would record a decline of 1.2% this year.

According to the data of the National Statistics Office of Mongolia, due to the lockdown policy at the beginning of this year, Mongolia's coal production was 7.9 million tonnes in the first quarter of 2020, a decline of 38.4% compared with the same period last year. In respect of coking coal imported to China in the first quarter of 2020, it was only 2.73 million tonnes. As coal export plays a very important part in Mongolia's economy, Mongolia gradually resumes coal export to China through its different borders since March.

Due to deficient coal production, import of coal in general into China for the first quarter of 2020 recorded 28.4% increase. Coking coal import also surged 26.7% in the first quarter. Steel production in China is expected to continue to grow over the next five years, though at a slower pace. Hence, coking coal demand by China this year is forecasted to remain more or less the same level as last year.

We have had a rocky start at the beginning of this year due to the unforeseeable COVID-19 pandemic, which brought our coal production and export to a temporary halt. There may be more unknown and uncertain factors still to follow for the remaining half of the year. Currently, the China border has practiced stringent coal import measures. The border crossing process is slow and inefficient. We hope the export and import process will soon be normalised through the efforts of all parties. We will continue to adopt a prudent and closely-watch strategy in our operation and production planning in response to the ever-changing market conditions. Despite the adverse impact in the first quarter of the new financial year brought under COVID-19, we pledge to do our best in an effort to maintain a satisfactory performance in the new financial year.

HUMAN RESOURCES

As at 31 March 2020, excluding site and construction workers directly employed by our contractors, the Group employed 613 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 2019 AGM. The Managing Director of the Company took the chair of the 2019 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 2019 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.

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 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, 24 June 2020

As at the date of this announcement, the Board comprises eight Directors, including Mr. Lo Lin Shing, Simon, Ms. Yvette Ong, Mr. Lo, Rex Cze Kei and Mr. Lo, Chris Cze Wai 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.