MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2021

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 2021 (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 2021

	Notes	**2021** *HK$'000*	2020 *HK$'000*
Revenue	*4*	**858,417**	1,124,996
Cost of sales		**(549,576)**	(645,757)
Gross profit		**308,841**	479,239
Other income	*5*	**81,898**	6,382
Other gains and losses	*6*	**1,715**	(34,967)
Administrative expenses		**(157,492)**	(169,182)
Changes in fair value on derivative component of convertible notes	*15(a)*	**(1,070,118)**	377,767
Modification gain on convertible notes	*15(a)*	**–**	249,444
Change in fair value of derivative financial instruments	*15(a)*	**–**	797,546
Derecognition gain on convertible notes	*15(a)*	**–**	21,943
Reversal of impairment losses on property, plant and equipment	*3*	**990,509**	522,439
Reversal of impairment losses on intangible assets	*3*	**132,185**	69,304
Reversal of impairment losses on right-of-use assets	*3*	**1,119**	591
Reversal of impairment losses on financial assets, net		**230**	1,335
Finance costs	*7*	**(525,129)**	(800,679)
(Loss) profit before taxation	*8*	**(236,242)**	1,521,162
Income tax expense	*9*	**(50,663)**	(79,224)
(Loss) profit for the year attributable to owners of the Company		**(286,905)**	1,441,938
(Loss) earnings per share attributable to owners of the Company	*11*		
– basic (loss) earnings per share (HK$)		**(1.53)**	7.66
– diluted (loss) earnings per share (HK$)		**(1.53)**	0.15

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2021

	2021	2020
	HK$'000	*HK$'000*
(Loss) profit for the year	**(286,905)**	1,441,938
Other comprehensive income (expense)		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translating foreign operations	**20,130**	(17,495)
Total comprehensive (expense) income for the year attributable to owners of the Company	**(266,775)**	1,424,443

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	Notes	2021 HK$'000	2020 HK$'000
Non-current assets			
Property, plant and equipment		**2,394,590**	1,373,022
Right-of-use assets		**8,055**	9,839
Intangible assets		**279,145**	153,709
Exploration and evaluation assets		**1,262**	498
Interest in an associate		**–**	–
Other asset		**1,150**	1,150
Deferred tax assets		**5,647**	3,499
		2,689,849	1,541,717
Current assets			
Trade and bills receivables	*12*	**274,369**	120,365
Inventories		**208,357**	241,365
Other receivables, prepayments and deposits		**155,913**	122,733
Prepaid taxation		**1,412**	4,396
Financial asset at fair value through profit or loss ("**FVTPL**")		**50,752**	51,597
Amount due from an associate		**–**	–
Cash and cash equivalents		**57,577**	61,782
		748,380	602,238
Current liabilities			
Trade payables	*13*	**173,861**	174,607
Other payables and accruals		**99,213**	138,307
Contract liabilities		**2,823**	5,027
Tax liabilities		**39,877**	–
Advances from a Director	*14*	**1,811,276**	1,709,372
Lease liabilities		**2,939**	6,110
Deferred income		**1,648**	1,469
		2,131,637	2,034,892
Net current liabilities		**(1,383,257)**	(1,432,654)
Total assets less current liabilities		**1,306,592**	109,063

	Notes	2021 HK$'000	2020 HK$'000
Non-current liabilities			
Convertible notes	*15(a)*	**3,564,399**	2,168,168
Loan note	*14, 15(b)*	**316,613**	258,725
Deferred income		**5,465**	6,036
Deferred tax liabilities		**26,216**	27,981
Lease liabilities		**2,336**	2,115
		3,915,029	2,463,025
Net liabilities		**(2,608,437)**	(2,353,962)
Financed by:			
Capital and reserves			
Share capital		**3,763**	3,763
Reserves		**(2,612,200)**	(2,357,725)
Capital deficiencies attributable to owners of the Company		**(2,608,437)**	(2,353,962)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

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 mining, processing and sale of coal.

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. The Directors have reviewed the Group's cash flow projections prepared by the management. The cash flows projections cover a period of not less than 12 months from 31 March 2021. The cash flows projections have been determined using estimation of future cash flows to be generated from the Group's operating activities and its working capital needs. Also, Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and being the Chairman and Director of the Company, has provided facilities amounting to HK$1,900.0 million by way of advances to the Group. As at 31 March 2021, advances from a Director of HK$1,811.3 million comprised principal amount and accrued interest of HK$963.1 million and HK$848.2 million respectively. Excluding the accrued interest of HK$848.2 million, the balance of the unutilised facilities of HK$936.9 million remains valid until 31 March 2023 and Mr. Lo does not intend to demand repayment of the principal amount of the loan and the accrued interest until the Company has sufficient cash to make repayment.

While recognising that the Group had net liabilities of approximately HK$2,608.4 million and had net current liabilities of approximately HK$1,383.3 million at 31 March 2021 and incurred a loss of approximately HK$286.9 million for the year then ended, the Directors are of the opinion that, taking into account of the finance from Mr. Lo and the internally generated funds, the Group will be able to meet its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the finance were available. As such the Group would be unable to meet its financial obligations as and when they fall due. Should the Group be unable to operate as a going concern, adjustments would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for financial liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively, if applicable. The effects of these adjustments have not been reflected in the consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time, which are mandatory effective for the annual period beginning on or after 1 April 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year 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.

Impacts on application of Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current period. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

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 has 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$1,123,813,000 (2020: HK$592,334,000) 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 2021:

	Carrying values before reversal of impairment loss	Reversal of impairment loss	Carrying values after reversal of impairment loss
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	**1,393,620**	**990,509**	**2,384,129**
Intangible assets	**146,359**	**132,185**	**278,544**
Right-of-use assets	**688**	**1,119**	**1,807**
Total	**1,540,667**	**1,123,813**	**2,664,480**

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

The reason for such reversal of impairment loss being recognised in profit or loss for the year ended 31 March 2021 was mainly due to change in discount rate and predicted average growth rate of the coking coal price for the forthcoming four-year period (2020: 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 mining, processing and sale of coal. Revenue represents revenue arising from the sale of coal to external customers located in the People's Republic of China ("**the PRC**") and Mongolia, and is recognised at a point in time when coal is delivered to and accepted by the customers.

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 goods 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 2021

	Coal mining *HK$'000*	**Total** *HK$'000*
Segment revenue *(Note (a))*	**858,417**	**858,417**
Segment profit	**1,376,102**	**1,376,102**
Unallocated expenses *(Note (b))*		**(56,786)**
Other income		**40,825**
Other gains and losses		**(1,250)**
Changes in fair value on derivative component of convertible notes		**(1,070,118)**
Impairment loss on financial asset		**(9)**
Finance costs		**(525,006)**
Loss before taxation		**(236,242)**

For the year ended 31 March 2020

	Coal mining *HK$'000*	Total *HK$'000*
Segment revenue	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)
Changes in fair value on derivative component of convertible notes		377,767
Modification gain on convertible notes		249,444
Change in fair value of derivative financial instruments		797,546
Derecognition gain on convertible notes		21,943
Impairment loss on financial asset		(4)
Finance costs		(800,587)
Profit before taxation		1,521,162

Notes:

(a) As at 31 March 2021, 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 2020 of HK$5,027,000 have been recognised as revenue from performance obligation satisfied during the year. For contract liabilities as at 31 March 2021 of HK$2,823,000, as the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

(b) Unallocated expenses mainly include staff costs for corporate office, office rental and legal and professional fees for both years.

The accounting policies of the operating segment are the same as the Group's accounting policies described in annual report. Segment profit represents the profit from the coal mining operation without allocation of expenses not directly related to the operating segment, unallocated other income, certain finance costs, certain other gains and losses, changes in fair value of derivative component of convertible notes and derivative financial instruments, modification gain on convertible notes, derecognition gain on convertible notes and impairment loss on financial asset. 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 2021

	HK$'000
ASSETS	
Segment assets – coal mining	**3,355,777**
Financial asset at FVTPL	**50,752**
Cash and cash equivalents	**10,677**
Other unallocated assets *(Note (a))*	**21,023**
Consolidated total assets	**3,438,229**
LIABILITIES	
Segment liabilities – coal mining	**342,387**
Convertible notes	**3,564,399**
Loan note	**316,613**
Advances from a Director	**1,811,276**
Other unallocated liabilities *(Note (b))*	**11,991**
Consolidated total liabilities	**6,046,666**

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

Notes:

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

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

	2021 *HK$'000*	2020 *HK$'000*
Capital additions	**59,767**	81,626
Amortisation of intangible assets	**7,142**	3,482
Depreciation of right-of-use assets	**2,489**	1,283
Interest income	**(200)**	(620)
Depreciation of property, plant and equipment	**33,060**	24,022
Reversal of impairment losses on property, plant and equipment	**(990,509)**	(522,439)
Reversal of impairment losses on intangible assets	**(132,185)**	(69,304)
Reversal of impairment losses on right-of-use assets	**(1,119)**	(591)

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	
	2021	2020
	HK$'000	*HK$'000*
Mongolia	**2,511**	2,781
The PRC	**855,906**	1,122,215
	858,417	1,124,996

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

	Non-current assets	
	2021	2020
	HK$'000	*HK$'000*
Hong Kong	**4,910**	8,274
Mongolia	**2,596,189**	1,476,924
The PRC	**83,103**	53,020
	2,684,202	1,538,218

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:

	2021	2020
	HK$'000	*HK$'000*
Customer A	**528,915**	728,362

5. OTHER INCOME

	2021	2020
	HK$'000	*HK$'000*
Interest income	**202**	643
Government grants	**6,395**	3,209
Sundry income *(Note)*	**75,301**	2,530
	81,898	6,382

Notes:

(a) During the year ended 31 March 2021, a subsidiary of the Group entered into a settlement agreement with an ex-exploration contractor in respect of the prepayment previously written off, amounting to RMB30,000,000 (equivalent to HK$34,191,000). The ex-exploration contractor has fully settled in cash during the current year.

(b) During the year ended 31 March 2021, an extinguishment of a balance payment of HK$39.0 million for acquisition of an iron ore exploration right in 2009 was recognised. The balance payment for acquisition of iron ore exploration right was previously included in other payables and accruals. Based on an independent legal advice, the balance payment is no longer payable as any action from the counterparty on the recovery of the balance payment has become statute-barred under the relevant law.

6. OTHER GAINS AND LOSSES

	2021	2020
	HK$'000	*HK$'000*
Changes in fair value on financial asset at FVTPL	**(845)**	(32,989)
Gain on disposal of property, plant and equipment	**29**	56
Loss on written off of property, plant and equipment	**–**	(4)
Net exchange gain (loss)	**2,531**	(2,030)
	1,715	(34,967)

7. FINANCE COSTS

	2021	2020
	HK$'000	*HK$'000*
Interest on advances from a Director	**140,782**	137,837
Interest on lease liabilities	**346**	567
Effective interest expense on convertible notes *(Note 15(a))*	**326,113**	644,190
Effective interest expense on loan note *(Note 15(b))*	**57,888**	18,085
	525,129	800,679

8. (LOSS) PROFIT BEFORE TAXATION

	2021 *HK$'000*	2020 *HK$'000*
(Loss) profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	**21,670**	18,482
Other staff costs:		
Salaries and other benefits (net of reimbursement from a related party)	**89,999**	93,261
Retirement benefits scheme contributions (excluding contributions for Directors and net of reimbursement from a related party)	**9,593**	11,780
Total staff costs	**121,262**	123,523
Less: staff costs capitalised in inventories	**(31,960)**	(39,423)
	89,302	84,100
(Reversal of impairment losses) impairment losses on:		
Trade and bills receivables	**(239)**	(1,534)
Other receivables	**–**	195
Amount due from an associate	**9**	4
	(230)	(1,335)
Depreciation of property, plant and equipment	**33,780**	24,654
Depreciation of right-of-use assets	**6,928**	5,335
Amortisation of intangible assets	**7,142**	3,482
Auditor's remuneration	**3,750**	3,860

9. INCOME TAX EXPENSE

	2021 *HK$'000*	2020 *HK$'000*
Current tax		
PRC Enterprise Income Tax ("**EIT**")	**–**	6,020
Mongolian corporate income tax	**53,288**	26,411
Withholding tax on distributed earnings	**–**	5,619
	53,288	38,050
Under provision in prior years:		
PRC EIT	**641**	48
Deferred taxation	**(3,266)**	41,126
	50,663	79,224

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for both years.

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

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

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

10. DIVIDENDS

No dividend was paid or proposed by the Company during 2021, nor has any dividend been proposed since the end of the reporting period (2020: Nil).

11. (LOSS) EARNINGS PER SHARE

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

	2021	2020
	HK$'000	*HK$'000*
(Loss) profit attributable to owners of the Company, as used in the calculation of basic (loss) earnings per share	**(286,905)**	1,441,938
Adjusted by:		
Changes in fair value on derivative component of convertible notes	**N/A**	(377,767)
Modification gain on convertible notes	**N/A**	(249,444)
Change in fair value of derivative financial instruments	**N/A**	(797,546)
Derecognition gain on convertible notes	**N/A**	(21,943)
Interest on convertible notes	**N/A**	644,190
(Loss) profit attributable to owners of the Company, as used in the calculation of diluted (loss) earnings per share	**(286,905)**	639,428

	2021	2020
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share (*Note (a)*)	**188,126**	188,126
Effect of dilutive potential ordinary shares *(Note (b) and (c))*: Convertible notes	**N/A**	4,076,225
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**188,126**	4,264,351

Notes:

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

(b) The computation of diluted loss per share for the year ended 31 March 2021 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.

(c) 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 shares during the outstanding period in 2020.

12. TRADE AND BILLS RECEIVABLES

	2021	2020
	HK$'000	*HK$'000*
Trade receivables and accrued income *(Note)*	**170,511**	23,892
Bills receivables	**104,324**	97,135
	274,835	121,027
Less: allowance for credit losses	**(466)**	(662)
	274,369	120,365

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 2019, trade receivable from contracts with customers amounted to HK$66,469,000.

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

	2021	2020
	HK$'000	*HK$'000*
1-30 days	**226,011**	35,916
31-60 days	**24,688**	318
61-90 days	**2,471**	39,181
Over 90 days	**21,199**	44,950
	274,369	120,365

13. TRADE PAYABLES

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

	2021	2020
	HK$'000	*HK$'000*
0 to 30 days	**85,161**	43,437
31 to 60 days	**22,893**	29,968
61 to 90 days	**4,877**	21,414
Over 90 days	**60,930**	79,788
	173,861	174,607

14. BORROWINGS

	2021	2020
	HK$'000	*HK$'000*
Unsecured – at amortised cost		
Advances from a Director *(Note)*	**1,811,276**	1,709,372
Convertible notes *(Note 15(a))*	**1,819,171**	1,493,058
Loan note *(Note 15(b))*	**316,613**	258,725
	3,947,060	3,461,155
Analysed for reporting purposes as:		
Current liabilities	**1,811,276**	1,709,372
Non-current liabilities	**2,135,784**	1,751,783
	3,947,060	3,461,155

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% per annum for both years.

15. 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**	
	2021	2020	**2021**	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of the year	**1,493,058**	3,546,316	**675,110**	81	**2,168,168**	3,546,397
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	**326,113**	644,190	**–**	–	**326,113**	644,190
Transaction costs on issuance of convertible notes	**–**	(859)	**–**	–	**–**	(859)
Changes in fair value of derivative component	**–**	–	**1,070,118**	(377,767)	**1,070,118**	(377,767)
Derecognition of the 3% ZV Convertible Note *(Note 15(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	**1,819,171**	1,493,058	**1,745,228**	675,110	**3,564,399**	2,168,168

2020 Convertible Notes with maturity date 6 March 2025

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

CTF and Golden Infinity Convertible Notes

On 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 or 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 HK$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 or loss during the year ended 31 March 2020.

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. No cash flows resulted from this transaction other than the payment of transaction costs amounting to HK$859,000 during the year ended 31 March 2020.

The 2020 Convertible Notes with principal amount of HK$3,438,058,423 have a maturity period of five years from the issue date to 6 March 2025. They can be converted into 1 ordinary share of the Company of HK$0.02 each for every HK$1.2 at the holders' option at any time since the issue date up to the date immediately prior to their maturity date. The outstanding principal amount would be redeemed at par value on the maturity date or at the issuer's option redeemed at par plus outstanding coupon payment at any time between the issue date and the maturity date. Interest of 3% per annum will be paid in arrears on the maturity date.

The 2020 Convertible Notes contain two components, a debt component and a derivative component with a conversion option derivative of the holders and a 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 of 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, 31 March 2020 and 31 March 2021.

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	**31 March 2021**
Stock price	HK$0.63	HK$0.44	**HK$1.12**
Exercise price	HK$1.2	HK$1.2	**HK$1.2**
Volatility *(Note (i))*	71.98%	74.19%	**71.97%**
Dividend yield	0%	0%	**0%**
Option life *(Note (ii))*	5 years	4.93 years	**3.93 years**
Risk free rate	0.67%	0.57%	**0.56%**

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 both years.

3% ZV Convertible Notes

Details of 3% ZV Convertible Notes are set out in Note 15(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 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.

(b) Loan note

The 3% ZV Convertible Note matured on 21 November 2019. On 21 November 2019, Mr. Lo took up the full amount owing to the 3% ZV Convertible Note holder through Ruby Pioneer Limited ("**Ruby Pioneer**"). Ruby Pioneer is a wholly-owned company of Mr. Lo as at 21 November 2019. Immediately after the aforesaid taking up, the Company and Ruby Pioneer entered into a standstill agreement pursuant to which Ruby Pioneer agreed to extend the note for five years from 21 November 2019 to 21 November 2024 at 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 was recognised directly in equity as a deemed capital contribution from Mr. Lo as at 31 March 2020. No cash flows resulted from this transaction for the year ended 31 March 2020.

16. CONTINGENT LIABILITIES

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

The former mining contractor issued two writs of summons on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK$93.7 million. In May 2015, the former mining contractor applied to Court to amend its statements of claim under the two writs by amending, among others, (i) the currency of the claims from Mongolian Tugrik to United States dollars; and (ii) the amount of the claims to include the alleged contractor's fees up to October 2014. According to amended statement of claims, total claims under 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 2021 (2020: 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.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU ("DELOITTE")

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 2021 as set out in this announcement have been agreed by the Company's auditor, Deloitte to the amounts set out in the Group's audited consolidated financial statements for the year as approved by the Board on 25 June 2021. The work performed by Deloitte 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 Deloitte on this announcement.

AUDIT OPINION

Deloitte has issued an unmodified opinion on the consolidated financial statements of the Group for the year ended 31 March 2021 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 indicates that as at 31 March 2021, the Group had net liabilities of approximately HK$2,608.4 million and net current liabilities of approximately HK$1,383.3 million and incurred a loss of approximately HK$286.9 million for the year then ended. 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 (2020: Nil).

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting (the "**AGM**") of the Company will be held on Wednesday, 25 August 2021. 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 Friday, 20 August 2021 to Wednesday, 25 August 2021, 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 Wednesday, 25 August 2021, 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 Thursday, 19 August 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS ANALYSIS

Revenue

In the Financial Year, the Group's revenue was HK$858.4 million (2020: HK$1,125.0 million). The significant decrease of revenue was principally due to the on-going global outbreak of the COVID-19 pandemic which had resulted in widespread of travel restrictions and quarantines imposed in mainland China and Mongolia during the Financial Year. This had negatively impacted the Group's mining operations. During the Financial Year, the Group sold approximately 675,800 tonnes (2020: 887,200 tonnes) of clean coking coal and approximately 77,700 tonnes (2020: 155,900 tonnes) of thermal coal and approximately 91 tonnes (2020: 105 tonnes) of raw coal. The average selling prices of clean coking coal, thermal coal and raw coal net of sales tax were approximately HK$1,264.7 (2020: HK$1,261.0), HK$47.0 (2020: HK$42.0) and HK$655.3 (2020: HK$695.0) 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$549.6 million (2020: HK$645.8 million). The overall decrease was not in tandem with the reduction in sales volume due to the increase in production costs in coal mining during the Financial Year. It was divided into cash costs of HK$526.6 million (2020: HK$629.0 million) and non-cash costs of HK$23.0 million (2020: HK$16.7 million).

Gross Profit

Gross profit ratio for the Financial Year was declined to 36.0% (2020: 42.6%). The decrease in gross profit ratio was mainly attributable to the increase in production costs during the Financial Year.

Other Income

During the Financial Year, a subsidiary of the Group entered into a settlement agreement with an ex-exploration contractor (the "**Contractor**") in respect of a legal claim on prepaid contract deposit of approximately HK$34.2 million (equivalent to RMB30.0 million). Under the settlement agreement, the Contractor agreed to refund the deposit by instalments. The refund was treated as other income since the deposit was fully written off in previous financial years for accounting purpose. Apart from it, a gain on extinguishment of a balance payment of HK$39.0 million for acquisition of an iron ore exploration right in 2009 was recorded during the Financial Year. Based on an independent legal advice, the balance payment is no longer payable due to any action of recovery has been statute-barred under relevant law.

Other Gains and Losses

The net gain mainly comprised a fair value loss of HK$0.8 million arising from an investment in a Hong Kong listed company (2020: HK$33.0 million) and net exchange gain of HK$2.5 million (2020: Loss of HK$2.0 million).

Administrative Expenses

Administrative expenses were 6.9% lower than last year. It was mainly due to the community expenses of HK$1.7 million (2020: HK$22.6 million) in respect of funding the relocation of a village in proximity to the Khushuut mine were significantly lesser than last year. The effect from reduction of community expenses was neutralised by the one-off share option expenses of HK$12.3 million (2020: Nil) related to the granting of share options to the Directors and employees of the Group on 18 January 2021.

Changes in Fair Value on Derivative Component of Convertible Notes

The convertible notes issued by the Company last year (the "**2020 Convertible Notes**") containing both debt and derivative components. The conversion option derivative of the 2020 Convertible Notes requires remeasurement at the end of each reporting period and a resulting loss in fair value change amounting to HK$1,070.1 million was then recognized in the Financial Year (2020: gain of HK$377.8 million). The major inputs into the binomial valuation model to work out the valuation of the conversion option derivative have been disclosed in note 15(a) to the consolidated financial statements in this announcement.

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 2021 and 2020 are set out as below:

	Notes	**2021**	2020
Discount rate	*(a)*	**21.06%**	25.09%
Average current coking coal price per tonne	*(b)*	**US$137**	US$133
Inflation rate	*(c)*	**1.99%**	2.38%
Predicted average annual growth rate of the coking coal price for the forthcoming four-year period since year ended	*(d)*	**3.93%**	0.18%

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 2021. 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$1,123.8 million was made in the Financial Year (2020: HK$592.3 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 (2020: 21.82%). 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 an effective interest rate of 22.37% per annum (2020: 22.37%).

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.

The global economy was a crisis in 2020, plaguing by the wide-spread of COVID-19 around the world. In the beginning of this year, the disease had been infecting over 100 million people with the death tolls exceeding 2 million around the globe. This brought a heavy blow to both the lives and economies across the planet. Almost all countries were doing their utmost, including implementing lockdowns, quarantines, mask mandates, and social distancing to combat the disease to prevent it from further exacerbation. Under the impact of the pandemic, according to the International Monetary Fund (IMF), the global economy was estimated to contract 3.5% in 2020. Rays of light only appeared when the scientists announced their success in vaccines testing at the end of 2020, raising the hope of mass vaccination to end the century pandemic in the year of 2021.

Throughout the entire 2020, the global economic activities had been stalled as a result of the pandemic. Gross Domestic Product ("**GDP**") fell generally. The Chinese economy dipped early last year when COVID-19 broke out, but recovered quickly. In the fourth quarter of 2020, China's GDP grew 6.5% year-on-year, up from 4.9% in the third quarter, which was driven by strong industrial production and export growth. China finished with 2.3% growth for the whole year of 2020. Though it was the slowest pace of growth in more than four decades, China was likely to be the only major economy to record positive growth under the backdrop of COVID-19.

According to the data of the National Bureau Statistics of China ("**NBS**"), industrial production, an important economic indicator, grew by 2.4% year on year in 2020, down almost 50% from previous year. Industrial production measures the output of businesses integrated in industrial sector of the economy such as manufacturing, mining, and utilities. The sectors recording most of the growth and strong performance were medical supplies, strong electronic products and holiday goods, while oil and natural gas exploitation industry, oil, coal and other fuel processing industry were generally unsatisfactory due to the impact of the pandemic. The profit of coal mining and washing industry in China last year was RMB2.2 billion, a decline of 21.1% year on year.

China's national fixed asset investment (excluding rural households) steadily recovered, with the investment in the high-tech industry and private sector rising rapidly. According to NBS, fixed asset investment in 2020 recorded an increase of 2.9% over the prior year. The fixed-asset investment includes capital spent on infrastructure, property, machinery and other physical assets.

The global crude steel production was approximately 1,864 million tonnes in 2020, down slightly by 0.9% compared with the prior year, according to the data of the World Steel Association. Apart from China and some of the Asian countries, crude steel production contracted in most regions globally last year. China remained the largest crude steel producing country in the world in 2020, producing 1,053 million tonnes and accounting for 56.5% of the world's crude steel production which was an increase of 5.2% compared with the same period in 2019. The increase was mainly from the better demand inside China due to its economic policy, and also to the widespread revivals of the manufacturing sectors out of China since the second half of the year.

According to the data of the China Customs, steel export of China last year was 53.67 million tonnes, declining 16.5% compared with the previous year while steel import also recorded a surge of 64.4% at 20.23 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 RMB207.4 billion, up 6.6% year on year.

Apart from steel, China is also the world's largest coal producer and consumer. China's coal mining sector was one of the first industries to resume operations when COVID-19 in China was under control in the second half of 2020. According to the data of the NBS, China produced 3.84 billion tonnes of coal last year by coal producers, a slight increase compared with prior year. When the effect is taken out, coal production in China was rising due to the surging of industrial demand and an unofficial restriction on coal imports aimed at shoring up the domestic mining industry. Based on the data of the China Customs, coal import of 2020 was 304 million tonnes, an increase of 1.5% while the coal export recorded a drop of 47.1% year on year at 3.19 million tonnes. In the first quarter of 2021, coal import of China amounted to approximately 68.5 million tonnes, a drop of 28.5% compared with the same period of 2020.

The Chinese steel sector accounts for two-thirds of global coking coal consumption. According to the data of the China Customs, the accumulated coking coal import in 2020 was 72.56 million tonnes, a slight decrease of 2.7% compared with that of 2019. The decrease in volume of coking coal import was mainly due to the informal ban of import from Australia and the cross-border restriction by Mongolia under the impact of the pandemic.

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, coal production and export slashed in 2020 due to the COVID-19 outbreak in Mongolia. Mongolia produced approximately 40.48 million tonnes of coal in 2020, a decrease of 20.3% compared with the prior year. Based on the data of the National Statistics Office of Mongolia, coal export of Mongolia last year was 28.6 million tonnes, down by 21.7%.

Coking coal of Mongolia is important to the steel making industry of China. According to the data of China Customs, coking coal import from Mongolia accounted for 32% of China's total coking coal import in 2020. It was the second largest coking coal importer apart from Australia. The result of the Mongolia coking coal import should be better under the political tensions between China and Australia; however, the resurgence of COVID-19 cases in Mongolia had called for stricter border checks between both countries. In 2020, the import of coking coal was 23.76 million tonnes, down by 29.6% compared with prior year.

Mongolia's economy has been badly hit as a result of the coronavirus pandemic in 2020. It was the plan of Mongolia to actively promote its mineral exports in the second half of the last year to stabilize its economy. It was also in an advantageous position when China adopted an informal ban on coal import against Australia. However, the resurgence of COVID-19 had prevented Mongolia from achieving its target. The impact of the pandemic had plunged the whole export from Mongolia to China by 19% in term of export value from a year earlier. The prospect of Mongolia's export in the coming 2021 would depend on whether it could successfully curb the pandemic under its policies.

BUSINESS REVIEW

Coal Sales

The sales performance of the Financial Year was hit by COVID-19, with on and off border closures between Xinjiang, China and Yarant, Mongolia to combat the spread of the disease. Our coking coal production dropped under the adverse market conditions, and hence less coking coal was sold compared with the preceding year. We recorded a revenue of HK$858.4 million from the sales of coking coal and thermal coal to our customers in China and Mongolia, a fall of 23.7% compared with the last corresponding period.

Coal Production

During the Financial Year, approximately 5,018,000 bank cubic meters ("**BCM**") of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2020: 8,933,100 BCM). Production of coking coal (before processing) and thermal coal were approximately 905,200 tonnes and 324,100 tonnes respectively (2020: 1,617,800 tonnes and 349,600 tonnes).

Coal Processing

During the Financial Year, approximately 796,500 tonnes of ROM coal (2020: 1,567,300 tonnes) were processed by the dry coal processing plant, producing approximately 782,300 tonnes of raw coking coal (2020: 1,263,300 tonnes). The average recovery rate was 98.2%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customers. In Xinjiang, approximately 905,300 tonnes of raw coking coal (2020: 1,206,400 tonnes) were processed by the washing plant, producing approximately 723,000 tonnes of clean coking coal (2020: 932,500 tonnes). The average recovery rate was 79.9%.

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 935,400 tonnes of raw coking coal were shipped from Mongolia to Xinjiang.

Customers and Sales

We entered into a master coal supply contract for 2021 with our major customer in Xinjiang for 1,500,000 tonnes (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 is based on the actual clean coking coal delivered after washing, and on this basis, we sold 441,300 tonnes of clean coking coal to this customer during the Financial Year. It accounted for approximately 64.6% of our revenue in the Financial Year.

In respect of our other customers, we have also signed two long term coal supply contracts for 2021-2023 with our two customers to annually supply a minimum 1,000,000 tonnes and 500,000 tonnes of raw coal respectively. Same as our major customer, we negotiated the actual 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 five other customers in Xinjiang during the Financial Year.

Licences

During the Financial Year, we maintained nine mining licences, of which eight are for our Khushuut operations, and one exploration licence. Please refer to the section headed "**EXPLORATION AND MINING CONCESSIONS OF THE GROUP**" in the annual report for further details.

Legal and Political Aspects

Since early 2020, the Government of Mongolia has imposed serious and stringent preventive measures against the COVID-19 outbreak. In March 2020, when the first local case of the pandemic was reported, the Government presented its economic and social stimulus plans. For realizing these efforts to sustain the country's economy, over 10 different laws concerning taxes, social security and customs duties had been amended for smooth realization of the stimulus, such measures include exemptions from paying social insurance premiums and personal income tax as well as the corporate income tax from the majority of businesses. The Law on Prevention and Fight against the Coronavirus (COVID-19) and Mitigation of its Social and Economic Impact was approved in April 2020. The Law on State of Emergency and Law on Protection Against Disasters also underwent some amendments to give better coordination functions to the relevant government bodies.

Since the formation of the new Government in March 2020, vaccination and repatriation of the citizens from overseas have been the utmost priority under the pandemic. Recognizing the importance of the mining industry in the country's economy, the new Cabinet aims to strengthen the National Sovereign Wealth Fund established to make mining revenues more profitable and distribute natural resources fairly and equitably. Funding for this wealth fund would come from mining royalty fees and profits of the state-owned companies, and will be spent on promoting economic goals and improving livelihoods. Further, the Government aims to accelerate the development of science, technology and innovation through a coordinated and unified cluster and promote large-scale infrastructure projects to develop energy, railway and roads of Mongolia.

Similar to other countries worldwide, the COVID-19 pandemic has been a critical challenge for the Mongolian Government. It demanded the policy makers to address multiple dimensions which go far beyond the implications of the pandemic for health and wellbeing of the people. The pandemic necessitates a focus on the connections between development policy sectors. Thus, Mongolian Parliament realized a number of important legal changes concerning the promotion of the country's sustainable development. First of all, a new version of the Development Policy, Planning and Administration Law was adopted in May, 2020, with aim to ensure sustainability and continuity of the Mongolia's development policy and planning, define the principles of this policy, create an integrated and rational system of planning, delivering, monitoring and evaluating the development and promote proper partnership of development policy and planning participants. Following the adoption of this strategic law, a number of relevant laws governing the administration of the Mongolia's territorial units, urban planning and development have also been amended. Then, the long-term development policy of Mongolia called "Vision-2050" was approved by the Parliament on May 13, 2020. A large number of government bodies, NGOs, research institutes and academia was involved in developing this policy document defining the next 30 years of development for Mongolia. This long-term vision outlines the common national values, human development guidelines, quality of life and middle class, priority sectors of the economy, good governance measures, green development principles, peace and security of the society, regional development, the capital city and its satellites and many other relevant provisions.

In preceding years, Mongolian Government focused on reducing the bureaucracy and making the public service more transparent, efficient and less burdensome for public and businesses through digitalizing the government services. After a year of piloting, the "E-Mongolia" portal became official in October, 2020, now offering 181 government services online through the website and mobile application. This digital transition of the public service was a very timely step in the face of COVID-19 lockdowns and restrictions. The Parliamentary Standing Committee on Innovation and Online Policy is developing a package of bills on digital transition, including bills on the Protection of Information Safety and Data and Digital Use of Government.

During the COVID-19 pandemic, Mongolia and China continued with their close collaboration. Two virtual conferences for Mongolia-China cooperation mechanism in response to COVID-19 pandemic was also held in May and July 2020 as organized by Ministries of Foreign Affairs of the two countries and attended by representatives of border, customs, specialized inspection, trade and transport agencies. After the outbreak of COVID-19 at the end of 2020, China promptly provided its vaccine to the Mongolian people. Though the border control for import and export becomes stricter than before because of the escalation of COVID-19 confirmed cases, both government officials worked very hard to ensure continuation of in and out of goods for the betterment of their respective people.

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.

Thiess amended its Statement of Claims during the Financial Year. We have responded by filing our amended Defence. 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$2,608.4 million and net current liabilities of approximately HK$1,383.3 million as at 31 March 2021, 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 2021 remains valid until 31 March 2023; 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 2021 were convertible notes, loan note and advances from Mr. Lo in aggregate of HK$5,692.3 million (2020: HK$4,136.3 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 2021, the cash and bank balances of the Group were HK$57.6 million (2020: HK$61.8 million) and the liquidity ratio was 0.35 (2020: 0.30).

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$990.5 million (2020: HK$522.4 million). During the Financial Year, the Group had incurred capital expenditures of approximately HK$57.7 million (2020: HK$81.8 million).

Trade and Bills Receivables

The Group allows a credit period of 30 to 60 days for trade receivables and the maturity dates for bills receivables should be within 180 days or less. As at 31 March 2021, the majority of the trade receivables were within our credit period. For the bills receivables, they were non-interest bearing bank acceptance bills with settlement being guaranteed by the licensed banks in the PRC.

Other Receivables, Prepayments and Deposits

It mainly comprised prepaid value added tax of HK$129.8 million (2020: HK$106.2 million) to be refunded by the government of Mongolia.

Financial Assets at Fair Value Through Profit or Loss

As at 31 March 2021, the fair value of the financial assets at fair value through profit or loss was HK$50.8 million (2020: HK$51.6 million), which was approximately 1.5% (2020: 2.4%) of the total assets of the Group. It represents the Group's interest in Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "**Jade Bird**"), a company listed in Hong Kong. The principal activities of Jade Bird and its subsidiaries are engaging in the technology research, development, marketing and sale of embedded system products and related products in security and fire alarm systems. The Group's investment is approximately 5.58% (2020: 6.13%) of the total issued share capital of Jade Bird. During the Financial Year, the Group did not receive any dividend from Jade Bird. The decrease in carrying value of the financial assets at fair value through profit or loss was mainly due to the fair value loss of HK$0.8 million (2020: HK$33.0 million).

Other Payables and Accruals

The major components were balance payments of capital expenditures due to construction companies.

Charge on Group's Assets

There was no charge on the Group's assets as at 31 March 2021 (2020: Nil).

Gearing Ratio

As at 31 March 2021, the gearing ratio of the Group was 1.7 (2020: 1.9) 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 2021, 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

As we look forward, 2021 is no doubt a year of recovery. However, the extent of the global economic rebound may depend on whether the COVID-19 could be successfully curbed, the effectiveness of COVID-19 vaccines and their distribution. Yet the road is not straight. Many cases of new variants of virus and resurgence have been reported. There are definitely many challenges on the way.

According to the latest forecast of the World Bank, the global economic growth in 2021 will increase to 5.6%, up from 4.1% it estimated in the beginning of this year. The IMF also projected recovery this year, with China estimated to grow by 8.4% and the globe by 6%, though there is divergence in rebound speed in different countries.

While most major economies have been felled by the pandemic, China is the first country coming out of the economic crisis quickly. China set an economic growth target above 6% for the whole year of 2021.

China was the largest crude steel producing country and also the biggest consumer in 2020. The World Steel Association consider that global steel demand growth in 2021 will amount to 4.1%. As a result of China's policies to boost its economy, in particular, infrastructure investment, we anticipate the demand of steel will remain strong in 2021, and this would fuel the demand of coking coal through domestic production and import. However, China is also firm in its policy of accelerating its environmental push to control carbon emissions.

China's carbon emissions are 10 billion tonnes, accounting for 28% of the world's total. However, China's commitment to carbon neutrality is 30 years; therefore, it has a tight time frame and would consider carbon neutrality from now. Steel carbon emissions account for 15% of the country's carbon emissions. In the future, the steel and coal industries will definitely be a target that requires reduced production to lessen the carbon emission.

The economy of Mongolia shrank 5.3 percent in 2020 under the pandemic, the first contraction since 2009. However, difficult times have once again demonstrated the importance of its mining industry in the Mongolian economy. The mining sector alone accounts for a substantial portion of Mongolian GDP, and major trunk of its export. That explains why most mining operations are to continue without interruption during the pandemic, with miners working round the clock even as much of the rest of the country is under a lockdown.

Global economy recovered significantly in the first quarter of 2021. China's GDP growth in the first quarter was 18.3% year-on year, the strongest since in 1992, which was mainly driven by a surge in retail sales, industrial production and investment in fixed assets. China's economy has continued to grow since last year is much to Mongolia's advantage. On the other hand, the informal ban of Australian coal will also fuel the demand of Mongolia coking coal in 2021. Whether Mongolia could take the advantage would depend on its result in controlling the pandemic.

Although admittedly we should be on the road of recovery in 2021 after the launch of vaccination in most countries, the speed is still subject to uncertainties. Currently, both the China border and the Mongolia border have practiced stringent coal import and export measures, rendering the shipping process slow and inefficient. We hope the processes will soon be normalised through the efforts of both countries. We anticipate that high-quality coking coal is and will be in structural shortage and the market is positive. We will continue to adopt a prudent and flexible strategy in our operation and production planning. We look forward to a rebound in the remaining half of 2021.

The impacts of the pandemic further convince us that we should diversify our business risks for reliance on one single industry and sole mining project in Mongolia, and to broaden our revenue base. While we will continue to do our best in our coal mining business under the present unpredictable environment, we will actively look for other potential business opportunities which may add value to the Group and our shareholders.

HUMAN RESOURCES

As at 31 March 2021, excluding site and construction workers directly employed by our contractors, the Group employed 668 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 benefits 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 2020 AGM. The Chairman of the Audit and Remuneration Committees of the Company took the chair of the 2020 AGM and answered questions raised by the shareholders. The AGM provides a channel for communication between the Board and the shareholders. 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, 25 June 2021

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.