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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Mongolia Energy Corporation Limited (the “Company”), you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

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MONGOLIA ENERGY CORPORATION LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 276)

**(1) CAPITAL REORGANISATION;
(2) CONNECTED TRANSACTION
IN RELATION TO SUBSCRIPTION OF THE NEW GI CONVERTIBLE NOTE;
AND
(3) SUBSCRIPTION OF THE NEW CTF CONVERTIBLE NOTE**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders of the Company**



A letter from the Board is set out on pages 9 to 31 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 32 to 33 of this circular. A letter from Somerley Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 34 to 54 of this circular.

A notice convening a special general meeting (the “SGM”) of the Company to be held at 22nd Floor, United Centre, 95 Queensway, Hong Kong, on Friday, 7 February 2020 at 11:00 a.m. is set out on pages SGM-1 to SGM-4 of this circular. Whether or not you intend to attend the SGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar in Hong Kong, Tricor Standard Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

7 January 2020

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DEFINITIONS

In this circular (including the cover page), unless the context otherwise requires, the following expressions shall have the following meanings:

“2014 Notes”	collectively, the Existing GI Note and the Existing CTF Note
“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Announcement”	the announcement of the Company dated 28 November 2019 in relation to, among other things, the Capital Reorganisation and the Subscriptions
“associate(s)”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of the Directors
“Business Day”	a day (excluding Saturday, Sunday, any public holiday and any day on which a tropical cyclone warning no.8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“Bye-Laws”	the bye-laws of the Company as amended from time to time
“Capital Reduction”	the proposal for the reduction of the par value of the issued Consolidated Shares from HK\$0.20 each to HK\$0.02 each by cancelling the paid-up capital to the extent of HK\$0.18 on each issued Consolidated Share and the cancellation of any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation immediately after the Share Consolidation
“Capital Reorganisation”	the proposed reorganisation of the capital of the Company by way of (i) the Share Consolidation; (ii) the Capital Reduction; and (iii) the Share Premium Reduction as referred to in this circular
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act 1981 of Bermuda, as amended, modified or supplemented from time to time

DEFINITIONS

“Company”	Mongolia Energy Corporation Limited, a company incorporated in Bermuda with limited liability whose issued Shares are listed on the main board of the Stock Exchange
“Concert Group”	the GI Subscriber and its concert parties, the CTF Subscriber and its concert parties, including but not limited to Dragon Noble Group Limited, Mr. Lo and his spouse, Dr. Cheng Kar Shun and his spouse
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Consolidated Share(s)”	the ordinary share(s) of HK\$0.20 each in the issued capital of the Company immediately after the Share Consolidation becoming effective but prior to the Capital Reduction taking effect
“Conversion Price”	the initial conversion price of HK\$1.2 per New Share (subject to adjustment as set out in the New Convertible Notes, from time to time, if any), which has already taken into account of the effect of the Capital Reorganisation
“Conversion Right(s)”	the right(s) attaching to the New Convertible Notes to convert the respective principal amounts and any accrued but unpaid interest thereon or any part thereof into the Conversion Share(s)
“Conversion Share(s)”	the New Share(s) to be issued by the Company as a result of the exercise of the Conversion Rights attaching to the New Convertible Notes
“CTF Completion Date”	the third Business Day after fulfillment or waiver (as applicable) of the conditions precedent set out in the CTF Subscription Agreement or such other date as may be agreed between the parties to the CTF Subscription Agreement in writing, and in any event no later than the Long Stop Date
“CTF Standstill Agreement”	the standstill agreement dated 21 November 2019 entered into between the Company and the CTF Subscriber in relation to the stay for the repayment of all amounts due and owing under the Existing CTF Note
“CTF Subscriber”	Chow Tai Fook Nominee Limited, a company incorporated in Hong Kong with limited liability and the controlling shareholder of which is Chow Tai Fook (Holding) Limited
“CTF Subscription”	the subscription of the New CTF Convertible Note by the CTF Subscriber pursuant to the CTF Subscription Agreement

DEFINITIONS

“CTF Subscription Agreement”	the conditional subscription agreement dated 28 November 2019 entered into between the Company and the CTF Subscriber pursuant to which the Company has agreed to issue, and the CTF Subscriber has agreed to subscribe for, the New CTF Convertible Note
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Existing CTF Note”	3% convertible note due 21 November 2019 issued by the Company to the CTF Subscriber which conversion rights attached thereto were extinguished at 20 November 2019 and the outstanding principal amount of which was HK\$2,424,821,918 as at the Latest Practicable Date
“Existing GI Note”	3% convertible note due 21 November 2019 issued by the Company to the GI Subscriber which conversion rights attached thereto were extinguished at 20 November 2019 and the outstanding principal amount of which was HK\$542,315,254 as at the Latest Practicable Date
“Existing Share(s)”	the ordinary share(s) of HK\$0.02 each in the share capital of the Company
“GI Completion Date”	the third Business Day after fulfillment or waiver (as applicable) of the conditions precedent set out in the GI Subscription Agreement or such other date as may be agreed between the parties to the GI Subscription Agreement in writing, and in any event no later than the Long Stop Date
“GI Standstill Agreement”	the standstill agreement dated 21 November 2019 entered into between the Company and the GI Subscriber in relation to the stay for the repayment of all amounts due and owing under the Existing GI Note
“GI Subscriber”	Golden Infinity Co., Ltd., a company incorporated in the BVI with limited liability and wholly-owned by Mr. Lo
“GI Subscription”	the subscription of the New GI Convertible Note by the GI Subscriber pursuant to the GI Subscription Agreement

DEFINITIONS

“GI Subscription Agreement”	the conditional subscription agreement dated 28 November 2019 entered into between the Company and the GI Subscriber pursuant to which the Company has agreed to issue, and the GI Subscriber has agreed to subscribe for, the New GI Convertible Note
“Group”	the Company and its subsidiaries
“HK” or “Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Tsui Hing Chuen, William <i>JP</i> , Mr. Lau Wai Piu and Mr. Lee Kee Wai, Frank, established for the purpose of advising the Independent Shareholders in relation to the Subscriptions
“Independent Shareholders”	Shareholders other than members of the Concert Group and their respective associates, and those who are interested in the Subscriptions
“Last Trading Day”	27 November 2019, being the last full trading day prior to the date of publication of the Announcement
“Latest Practicable Date”	31 December 2019 being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in the circular
“Listing Committee”	has the meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	21 May 2020 or such other date as the Company, the GI Subscriber and the CTF Subscriber may agree in writing
“Mr. Lo”	Mr. Lo Lin Shing, Simon, an executive Director and the chairman of the Company
“New Convertible Notes”	collectively, the New GI Convertible Note and the New CTF Convertible Note, and the “New Convertible Note” means either of them

DEFINITIONS

“New CTF Conversion Shares”	the Conversion Shares to be issued by the Company upon exercise of the Conversion Rights attaching to the New CTF Convertible Note
“New CTF Convertible Note”	the 3% convertible note to be subscribed by the CTF Subscriber under the CTF Subscription Agreement
“New GI Conversion Shares”	the Conversion Shares to be issued by the Company upon exercise of the Conversion Rights attaching to the New GI Convertible Note
“New GI Convertible Note”	the 3% convertible note to be subscribed by the GI Subscriber under the GI Subscription Agreement
“New Share(s)”	the ordinary share(s) of HK\$0.02 each in the share capital of the Company immediately upon the Capital Reorganisation becoming effective
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“RP Standstill Agreement”	the standstill agreement dated 21 November 2019 entered into between the Company and Ruby Pioneer Limited, a company wholly owned by Mr. Lo, to stay for the repayment of all amounts due and owing by the Company under three 3% convertible notes in the aggregate principal amount of HK\$499,878,000 due 21 November 2019 (which conversion rights attached thereto were extinguished on 20 November 2019) for five (5) years from 21 November 2019 to 21 November 2024 with interest continues to accrue at the rate of 3% per annum
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve, inter alia, the Capital Reorganisation, the Subscription Agreements and the respective transactions contemplated thereunder
“Share(s)”	the Existing Share(s), the Consolidated Share(s) or the New Share(s), as the case may be
“Share Consolidation”	the proposed consolidation of every ten (10) issued Existing Shares of HK\$0.02 each into one (1) Consolidated Share of HK\$0.20 in the issued share capital of the Company

DEFINITIONS

“Share Premium Reduction”	the proposed cancellation of the entire amount standing to the credit of the share premium account of the Company immediately after the Capital Reduction becoming effective
“Shareholder(s)”	holder(s) of the issued Share(s)
“Sommerley”	Sommerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions
“Standstill Agreements”	collectively, the GI Standstill Agreement and the CTF Standstill Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreements”	collectively, the GI Subscription Agreement and the CTF Subscription Agreement
“Subscriptions”	collectively, the GI Subscription and the CTF Subscription
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“%”	per cent.

EXPECTED TIMETABLE

The expected timetable for the Capital Reorganisation is set out below. The timetable is subject to the results of the SGM and is therefore for indicative purpose only. An announcement will be made by the Company regarding any changes to the expected timetable as and when appropriate. All times and dates in this circular refer to Hong Kong local times and dates.

Event **2020**

Despatch of circular with notice and proxy form of the SGM Tuesday, 7 January

Latest time for lodging transfer documents and relevant share certificates to be eligible to attend and vote at the SGM 4:30 p.m. on Tuesday, 4 February

Closure of register of members of the Company for the purpose of ascertaining Shareholders' eligibility to attend and vote at the SGM from Wednesday, 5 February to Friday, 7 February (both days inclusive)

Latest time for lodging the proxy form of the SGM 11:00 a.m. on Wednesday, 5 February

Expected date and time of the SGM 11:00 a.m. on Friday, 7 February

Announcement of the poll results of the SGM Friday, 7 February

The following events are conditional on the fulfilment of the conditions for the implementation of the Capital Reorganisation:

Expected effective date of the Capital Reorganisation Tuesday, 11 February

First day for free exchange of existing share certificates for new share certificates of the New Shares Tuesday, 11 February

Commencement of dealings in New Shares 9:00 a.m. on Tuesday, 11 February

Original counter for trading in Existing Shares in board lots of 3,000 Existing Shares (in the form of existing share certificates) temporarily closes 9:00 a.m. on Tuesday, 11 February

Temporary counter for trading in New Shares in board lots of 300 New Shares (in the form of existing share certificates) opens 9:00 a.m. on Tuesday, 11 February

EXPECTED TIMETABLE

Original counter for trading in New Shares
in board lots of 3,000 New Shares
(in the form of new share certificates) re-opens 9:00 a.m. on Tuesday, 25 February

Parallel trading in New Shares
(in the form of new share certificates
and existing share certificates) commences 9:00 a.m. on Tuesday, 25 February

Designated broker starts to provide matching
services for odd lots of New Shares Tuesday, 25 February

Temporary counter for trading in New Shares
in board lots of 300 New Shares
(in the form of existing share certificates) closes 4:10 p.m. on Monday, 16 March

Parallel trading in New Shares
(in the form of new share certificates of the New Shares
and existing share certificates) ends 4:10 p.m. on Monday, 16 March

Designated broker ceases to provide matching services
for odd lots of New Shares 4:10 p.m. on Monday, 16 March

Last day for free exchange of existing share certificates
for new share certificates of the New Shares Wednesday, 18 March

LETTER FROM THE BOARD

MEG
MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

Executive Directors:

Mr. Lo Lin Shing, Simon (*Chairman*)

Ms. Yvette Ong (*Managing Director*)

Mr. Lo, Rex Cze Kei

Registered office:

Clarendon House

Church Street

Hamilton HM 11

Bermuda

Non-executive Director:

Mr. To Hin Tsun, Gerald

*Head office and principal place
of business in Hong Kong:*

17th Floor

118 Connaught Road West

Hong Kong

Independent non-executive Directors:

Mr. Tsui Hing Chuen, William *JP*

Mr. Lau Wai Piu

Mr. Lee Kee Wai, Frank

7 January 2020

To the Shareholders

Dear Sir or Madam,

**(1) CAPITAL REORGANISATION;
(2) CONNECTED TRANSACTION
IN RELATION TO SUBSCRIPTION OF THE NEW GI CONVERTIBLE NOTE;
AND
(3) SUBSCRIPTION OF THE NEW CTF CONVERTIBLE NOTE**

INTRODUCTION

Reference is made to the announcement of the Company dated 28 November 2019 in relation to, among other things, the Capital Reorganisation and the Subscriptions.

The purpose of this circular is to provide you with information in respect of, among other things, (i) details of the Subscriptions, the New Convertible Notes and the Capital Reorganisation; (ii) recommendation from the Independent Board Committee in respect of the Subscriptions; (iii) the advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions; and (iv) the notice of the SGM.

LETTER FROM THE BOARD

CAPITAL REORGANISATION

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$300,000,000 divided into 15,000,000,000 Existing Shares, of which 1,881,258,499 Existing Shares were issued and credited as fully paid. The Board proposed to put forward to the Shareholders the Capital Reorganisation which will comprise:

- (i) the Share Consolidation whereby every ten (10) issued Existing Shares of par value of HK\$0.02 each be consolidated into one (1) Consolidated Share of par value of HK\$0.20;
- (ii) the Capital Reduction whereby the par value of each issued Consolidated Share will be reduced from HK\$0.20 to HK\$0.02 by cancelling the paid-up capital to the extent of HK\$0.18 on each issued Consolidated Share and any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation will be cancelled;
- (iii) the Share Premium Reduction whereby the entire amount standing to the credit of the share premium account of the Company will be cancelled;
- (iv) the transfer of the credit arising from the Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company; and
- (v) the application of the contributed surplus account of the Company to set off the accumulated losses of the Company as permitted by the Companies Act and the Bye-Laws.

Effects of the Capital Reorganisation

Assuming there would be no change in the issued share capital of the Company from the Latest Practicable Date up to the date on which the Share Consolidation becomes effective and 0.9 Consolidated Share of fractional share will be created from the Share Consolidation, the issued share capital of the Company will become HK\$37,625,169.80 divided into 188,125,849 Consolidated Shares of par value of HK\$0.20 each.

Upon the Capital Reduction becoming effective, the par value of all the Consolidated Shares shall be reduced from HK\$0.20 each to HK\$0.02 each and the issued share capital of the Company shall accordingly be reduced to the extent of HK\$0.18 per Consolidated Share in issue. The fractional Consolidated Shares in the issued share capital of the Company arising from the Share Consolidation, if any, will also be cancelled. Any fractional Consolidated Shares to which the Shareholders are entitled shall be aggregated and sold for the benefit of the Company.

The New Shares will rank *pari passu* in all respects with each other in accordance with the Bye-Laws. There will be no change in the authorised share capital of the Company and the issued share capital will be reduced to HK\$3,762,516.98 divided into 188,125,849 New Shares of par value of HK\$0.02 each.

LETTER FROM THE BOARD

The credit of approximately HK\$33,862,652.82 arising from the Capital Reduction and the credit arising from the Share Premium Reduction will be transferred to the contributed surplus account of the Company and applied to set off against the accumulated losses of the Company as permitted by the Companies Act and the Bye-Laws with the balance (if any) after such set off to remain in the contributed surplus account of the Company.

Other than the relevant expenses incurred and to be incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net liabilities position of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company.

The Capital Reorganisation will not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any unpaid capital of the Company nor will it result in any change in the relative rights of the Shareholders.

The following table sets out the effect of the Capital Reorganisation on the share capital of the Company before and after the implementation of the Capital Reorganisation, assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date until the effective date of the Capital Reorganisation.

	As at the Latest Practicable Date	Immediately after the Capital Reorganisation becoming effective
Par value	HK\$0.02 per Existing Share	HK\$0.02 per New Share
Authorised share capital	HK\$300,000,000.00 divided into 15,000,000,000 Existing Shares	HK\$300,000,000.00 divided into 15,000,000,000 New Shares
Issued and fully paid up or credited as fully paid up share capital	HK\$37,625,169.98 divided into 1,881,258,499 Existing Shares	HK\$3,762,516.98 divided into 188,125,849 New Shares (<i>Note</i>)
Unissued share capital	HK\$262,374,830.02 divided into 13,118,741,501 Existing Shares	HK\$296,237,483.02 divided into 14,811,874,151 New Shares (<i>Note</i>)

Note: Assuming only 0.9 Consolidated Share of fractional Share is created from the Share Consolidation.

LETTER FROM THE BOARD

Reasons for the Capital Reorganisation

The Board considers that (i) the Share Consolidation will reduce the transaction costs for dealing in the New Shares, including those fees which are charged with reference to the number of board lots; (ii) the Capital Reorganisation will provide the Company with greater flexibility in possible fund raisings in the future; (iii) the Capital Reorganisation will accommodate the issue of the Conversion Shares; and (iv) the credit in the contributed surplus account of the Company arising from the Capital Reduction and the Share Premium Reduction will enable the Company to set off part of its accumulated losses and may be applied in the future for distribution to the Shareholders or in any manner permitted by the laws of Bermuda and the Bye-Laws.

As at the Latest Practicable Date, except for the Subscriptions, the Company had no agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) for any potential fund-raising activities in the coming twelve months. Nevertheless, given no new Shares can be allotted and issued below the par value of the Shares of HK\$0.02, after taking into account the downward trend of the Share price that was approaching HK\$0.1 per Share prior to the Announcement, the Directors believe that the Capital Reorganisation would provide greater flexibility on potential equity fund-raising exercises by the Company in the future.

As such, the Board is of the view that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

Conditions of the Capital Reorganisation

The Capital Reorganisation (which will be effected in accordance with the Bye-Laws and the Companies Act) is conditional upon:

- (i) the passing of a special resolution to approve the Capital Reorganisation by the Shareholders at the SGM;
- (ii) the Stock Exchange granting the listing of, and permission to deal in, the New Shares arising from the Capital Reorganisation and the New Shares which may fall to be allotted and issued upon exercise of the share options granted and to be granted under the share option scheme of the Company;
- (iii) the compliance with the relevant procedures and requirements under the laws of Bermuda to effect the Capital Reorganisation; and
- (iv) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation.

LETTER FROM THE BOARD

Listing and dealings

Application will be made to the Listing Committee for the granting of the listing of, and permission to deal in, the New Shares arising from the Capital Reorganisation and the New Shares which may fall to be allotted and issued upon exercise of the share options granted and to be granted under the share option scheme of the Company.

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The New Shares will be identical in all respects and rank pari passu in all respects with each other. All necessary arrangements will be made for the New Shares to be admitted into CCASS.

Fractional shares

Fractional New Shares will not be issued by the Company to the Shareholders. Any fractional entitlements of the New Shares will be aggregated and sold for the benefit of the Company.

Free exchange of share certificates

Subject to the Capital Reorganisation becoming effective, Shareholders may from Tuesday, 11 February 2020 to Wednesday, 18 March 2020 submit share certificates of the Existing Shares to the Company's branch share registrar in Hong Kong, Tricor Standard Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in exchange, at the expense of the Company, for new share certificates of New Shares. Thereafter, share certificates of the Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate of the Existing Shares cancelled or each new share certificate issued for the New Shares, whichever number of certificates cancelled/issued is higher. The existing share certificates will only be valid for trading and settlement purposes for the period up to 4:10 p.m. on Monday, 16 March 2020 (or such other date which may be announced by the Company) and will continue to be good evidence of legal title and may be exchanged for share certificates of the New Shares at any time in accordance with the foregoing.

The new share certificates of the New Shares will be issued in yellow colour in order to distinguish them from the existing blue colour.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the New Shares arising from the Capital Reorganisation, the Company has appointed Halcyon Securities Limited as an agent to provide matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the New Shares to

LETTER FROM THE BOARD

make up a full board lot, or to dispose of their holding of odd lots of the New Shares during the period from 9:00 a.m. on Tuesday, 25 February 2020 to 4:10 p.m. on Monday, 16 March 2020 (both days inclusive). Shareholders who wish to take advantage of this facility either to dispose of their odd lots of the New Shares or to top up their odd lots of the New Shares to a full new board lot may directly or through their broker contact Mr. Gilbert Lam of Halcyon Securities Limited at 11th Floor, 8 Wyndham Street, Hong Kong (telephone: (852) 3970 0990 and facsimile: (852) 3970 0998) during the aforesaid period.

The Shareholders should note that successful matching of the sale and purchase of odd lots of the New Shares is not guaranteed. The Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility.

Adjustment in relation to other securities of the Company

As at the Latest Practicable Date, the Company had 190,000,000 outstanding share options. Further announcement will be made by the Company as and when appropriate in respect of any adjustment to be made as a result of the Capital Reorganisation to the exercise price of those outstanding share options and the aggregate number of Shares to be allotted and issued upon exercise of the subscription rights attaching to those outstanding share options.

Save as aforesaid, the Company had no other outstanding convertible securities, options or warrants in issue which conferred any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

Other arrangements

Further information of other arrangements are set out in the section headed “Expected Timetable” above.

THE SUBSCRIPTIONS

On 28 November 2019 (after trading hours), the Company entered into (i) the GI Subscription Agreement with the GI Subscriber pursuant to which the Company conditionally agreed to issue and the GI Subscriber conditionally agreed to subscribe for the New GI Convertible Note; and (ii) the CTF Subscription Agreement with the CTF Subscriber pursuant to which the Company conditionally agreed to issue and the CTF Subscriber conditionally agreed to subscribe for the New CTF Convertible Note.

The principal terms of each of the Subscription Agreements are set out below.

GI Subscription Agreement

Date: 28 November 2019

Parties: The Company, as issuer
The GI Subscriber, as subscriber

LETTER FROM THE BOARD

The GI Subscriber is an investment holding company wholly and beneficially owned by Mr. Lo and is a substantial Shareholder. As at the Latest Practicable Date, the GI Subscriber and its concert parties (excluding the CTF Subscriber, Dragon Noble Group Limited and their respective concert parties) held 303,197,075 Shares, representing approximately 16.12% of the existing issued share capital of the Company.

Subject

The Company conditionally agreed to issue and the GI Subscriber conditionally agreed to subscribe for the New GI Convertible Note at the subscription price which will be used for full settlement of the entire outstanding principal amount and accrued interest under the Existing GI Note due and owing by the Company to the GI Subscriber on the GI Completion Date. The outstanding sum under the Existing GI Note (including principal and interest) was HK\$624,019,133 as at the date of the GI Subscription Agreement and will be HK\$631,819,558 as at the Long Stop Date.

Conditions precedent

Completion of the GI Subscription Agreement is conditional upon:–

- (a) the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the New Shares arising from the implementation of the Capital Reorganisation and the New GI Conversion Shares to be issued pursuant to the New GI Convertible Note and such grant remaining in full force and effect;
- (b) all necessary consents, approvals (or waivers), authorisation, permission or exemption from any third parties, including but not limited to government or regulatory authorities, having been obtained by the Company in connection with the Capital Reorganisation and the GI Subscription and the issue of the New GI Convertible Note and the New GI Conversion Shares and such consents, approvals (or waivers), authorisation, permission or exemption remaining in full force and effect;
- (c) the compliance by the Company with all legal and other requirements under the Listing Rules and the laws of Bermuda applicable to the Capital Reorganisation and the transactions contemplated under the GI Subscription Agreement;
- (d) the passing of the requisite respective resolutions by the Board and the Shareholders at the SGM (other than those persons who are precluded from voting under the Listing Rules) approving, inter alia, the Capital Reorganisation and the transactions contemplated under the Subscription Agreements (including but not limited to the issue of the New Convertible Notes and the allotment and issue of the Conversion Shares upon exercise of the respective Conversion Rights); and
- (e) the CTF Subscription Agreement having become unconditional in all respects except for the condition therein relating to the GI Subscription Agreement having become unconditional.

All conditions above are non-waivable except that condition (e) above is waivable at the discretion of the GI Subscriber. As at the Latest Practicable Date, the GI Subscriber had not waived condition (e) above.

LETTER FROM THE BOARD

Completion

Completion of the GI Subscription shall take place after the Capital Reorganisation becoming effective and simultaneously with the completion of the CTF Subscription on the GI Completion Date.

Rescission

If any of the following events occurs at any time prior to completion of the GI Subscription Agreement, the GI Subscriber may, by giving a written notice to the Company, rescind the GI Subscription Agreement:

- (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may materially and adversely affect the business or the financial position of the Group as a whole;
- (b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the GI Subscription Agreement, of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may materially and adversely affect the business or the financial position of the Group as a whole;
- (c) there shall have occurred any of the following: (i) a suspension or material limitation in trading in the Company's securities or the Shares on the Stock Exchange (other than any temporary suspension for clearance of (1) the Announcement; or (2) any other announcement for no more than 10 consecutive trading days); (ii) a general moratorium on commercial banking activities in Hong Kong declared by the relevant authorities, or a material disruption in commercial banking or securities settlement or clearance services in Hong Kong; (iii) a change or development involving a prospective change in taxation in Bermuda or Hong Kong materially and adversely affecting the Company, the Shares, the New GI Convertible Note or the transfer thereof; (iv) the outbreak or escalation of hostilities involving Hong Kong or the declaration by Hong Kong of a national emergency or war; or (v) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or controls;
- (d) any breach of the representations, warranties and undertakings given by the Company under the GI Subscription Agreement or any failure by the Company to perform any of the agreements set forth in the GI Subscription Agreement where any such breach or failure would have a material adverse effect; or
- (e) in connection with the GI Subscription, any of the conditions precedent set out in the GI Subscription Agreement has not been satisfied or waived by the GI Subscriber by the Long Stop Date.

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Upon the giving of such notice by the GI Subscriber, all obligations of the Company and the GI Subscriber under the GI Subscription Agreement shall cease and determine and no party to the GI Subscription Agreement shall have any claim against the other in respect of any matter or thing arising out of or in connection with the GI Subscription Agreement.

CTF Subscription Agreement

Date: 28 November 2019

Parties: The Company, as issuer
The CTF Subscriber, as subscriber

The CTF Subscriber is an investment holding company and whose controlling shareholder is Chow Tai Fook (Holding) Limited. As at the Latest Practicable Date, the CTF Subscriber and its concert parties (including Dragon Noble Group Limited and its concert parties but excluding the GI Subscriber and its concert parties) held 153,667,500 Shares, representing approximately 8.17% of the existing issued share capital of the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the CTF Subscriber and its ultimate beneficial owner are not connected with the Company under the meaning of the Listing Rules.

Subject

The Company conditionally agreed to issue and the CTF Subscriber conditionally agreed to subscribe for the New CTF Convertible Note at the subscription price which will be used for full settlement of the entire outstanding principal amount and accrued interest under the Existing CTF Note due and owing by the Company to the CTF Subscriber on the CTF Completion Date. The outstanding sum under the Existing CTF Note (including principal and interest) was HK\$2,790,139,069 as at the date of the CTF Subscription Agreement and will be HK\$2,825,017,185 as at the Long Stop Date.

Conditions precedent

Completion of the CTF Subscription Agreement is conditional upon:-

- (a) the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the New Shares arising from the implementation of the Capital Reorganisation and the New CTF Conversion Shares to be issued pursuant to the New CTF Convertible Note and such grant remaining in full force and effect;
- (b) all necessary consents, approvals (or waivers), authorisation, permission or exemption from any third parties, including but not limited to government or regulatory authorities, having been obtained by the Company in connection with the Capital Reorganisation, the CTF Subscription and the issue of the New CTF Convertible Note and the New CTF Conversion Shares and such consents, approvals (or waivers), authorisation, permission or exemption remaining in full force and effect;

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- (c) the compliance by the Company with all legal and other requirements under the Listing Rules and the laws of Bermuda applicable to the Capital Reorganisation and the transactions contemplated under the CTF Subscription Agreement;
- (d) the passing of the requisite respective resolutions by the Board and the Shareholders at the SGM (other than those persons who are precluded from voting under the Listing Rules) approving, inter alia, the Capital Reorganisation and the respective transactions contemplated under the Subscription Agreements (including but not limited to the issue of the New Convertible Notes and the allotment and issue of the Conversion Shares upon exercise of the respective Conversion Rights); and
- (e) the GI Subscription Agreement having become unconditional in all respects except for the condition therein relating to the CTF Subscription Agreement having become unconditional.

All conditions above are non-waivable except that condition (e) above is waivable at the discretion of the CTF Subscriber. As at the Latest Practicable Date, the CTF Subscriber had not waived condition (e) above.

Completion

Completion of the CTF Subscription shall take place after the Capital Reorganisation becoming effective and simultaneously with the completion of the GI Subscription on the CTF Completion Date.

Rescission

If any of the following events occurs at any time prior to completion of the CTF Subscription Agreement, the CTF Subscriber may, by giving a written notice to the Company, rescind the CTF Subscription Agreement:

- (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may materially and adversely affect the business or the financial position of the Group as a whole;
- (b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the CTF Subscription Agreement, of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may materially and adversely affect the business or the financial position of the Group as a whole;
- (c) there shall have occurred any of the following: (i) a suspension or material limitation in trading in the Company's securities or the Shares on the Stock Exchange (other than any temporary suspension for clearance of (1) the Announcement; or (2) any other announcement for no more than 10 consecutive trading days); (ii) a general moratorium on commercial banking activities in Hong Kong declared by the relevant authorities, or a material disruption in commercial

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banking or securities settlement or clearance services in Hong Kong; (iii) a change or development involving a prospective change in taxation in Bermuda or Hong Kong materially and adversely affecting the Company, the Shares, the New CTF Convertible Note or the transfer thereof; (iv) the outbreak or escalation of hostilities involving Hong Kong or the declaration by Hong Kong of a national emergency or war; or (v) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or controls;

- (d) any breach of the representations, warranties and undertakings given by the Company under the CTF Subscription Agreement or any failure by the Company to perform any of the agreements set forth in the CTF Subscription Agreement where any such breach or failure would have a material adverse effect; or
- (e) in connection with the CTF Subscription, any of the conditions precedent set out in the CTF Subscription Agreement has not been satisfied or waived by the CTF Subscriber by the Long Stop Date.

Upon the giving of such notice by the CTF Subscriber, all obligations of the Company and the CTF Subscriber under the CTF Subscription Agreement shall cease and determine and no party to the CTF Subscription Agreement shall have any claim against the other in respect of any matter or thing arising out of or in connection with the CTF Subscription Agreement.

PRINCIPAL TERMS OF THE NEW CONVERTIBLE NOTES

Principal amount	New GI Convertible Note:	equivalent to the aggregate outstanding amount (including the principal amount and any outstanding accrued interest up to the GI Completion Date) owing by the Company to the GI Subscriber under the Existing GI Note, which is expected to be not more than HK\$631,819,558 (being the aggregate outstanding amount calculated up to the Long Stop Date).
	New CTF Convertible Note:	equivalent to the aggregate outstanding amount (including the principal amount and any outstanding accrued interest up to the CTF Completion Date) owing by the Company to the CTF Subscriber under the Existing CTF Note, which is expected to be not more than HK\$2,825,017,185 (being the aggregate outstanding amount calculated up to the Long Stop Date).
Maturity	Fifth anniversary of the date of issue of the New Convertible Notes (or such later date as consented by the respective holders of the New Convertible Notes).	

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Interest rate	3% per annum on the principal amount from time to time outstanding, and, unless previously redeemed, repaid or converted into Shares, payable in arrears on the maturity date of the New Convertible Notes (as the case may be).
Denomination for conversion	With a minimum aggregate amount of HK\$1,000,000 and integral multiples of HK\$1,000 save that if at any time the aggregate outstanding amount held by a holder of the New Convertible Note is less than HK\$1,000,000, the whole (but not part only) of such aggregate outstanding amount may be converted.
Conversion rights	A holder of the New Convertible Note shall have the right to convert the whole or any part (comprising the outstanding principal amount and any accrued but unpaid interest thereon and in the denomination as stated above) of the New Convertible Note into Conversion Shares at the Conversion Price (subject to adjustments) on any Business Day from the date of issue of the New Convertible Note and up to the Business Day immediately prior to the maturity date of the New Convertible Note.
Conversion price	Initially, being HK\$1.2 per New Share, subject to adjustments in certain events, including, among others, share consolidation, share subdivision, capitalisation issues, capital distribution, rights issue of Shares or options (other than share options of the Company under its share option schemes) or warrants or other rights over Shares, and other equity or equity derivatives issues. All adjustment provisions under the New Convertible Notes are the same.
Transferability	Freely transferrable, in whole or in part (being an authorised denomination of HK\$1,000) of the outstanding principal amount, to any person, subject to the terms of the New Convertible Notes, the Listing Rules and all applicable laws and regulations.
Listing	<p>No application will be made for the listing of the New Convertible Notes on the Stock Exchange or any other stock exchange.</p> <p>Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the Conversion Rights.</p>
Ranking	<p>Obligations of the Company under the New Convertible Notes are unsecured.</p> <p>The Conversion Shares to be issued upon the exercise of the Conversion Rights will be credited as fully paid and will rank pari passu in all respects with all other Shares outstanding at the date of exercise of the Conversion Rights and be entitled to all dividends and other distributions the record date for which falls on a date on or after the date of exercise of the Conversion Rights.</p>

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Voting	<p>A holder of the New Convertible Note will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being a holder of the New Convertible Note.</p>
Redemption and repurchase	<p>The Company shall redeem at 100% of the outstanding principal amounts of the New Convertible Notes on the maturity date.</p> <p>The Company or any of its subsidiaries may at any time and from time to time repurchase the New Convertible Notes or any part thereof at any price, in the open market or otherwise, as may be agreed between the Company or such subsidiary and the holder(s) of the New Convertible Note(s) (as the case may be). The New Convertible Note(s) or any part thereof so purchased shall forthwith be cancelled by the Company.</p> <p>The Company may, at any time after the issue date of the New GI Convertible Note or the New CTF Convertible Note (as the case may be) on giving not less than ten (10) Business Days' notice in writing to the holder thereof, elect to redeem the whole or any part (in authorised denominations of HK\$1,000) then outstanding.</p>
Status	<p>The obligations of the Company arising under the New Convertible Notes constitute general, unconditional, unsubordinated obligations of the Company and rank, and shall rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable laws.</p>
Restriction on the exercise of the Conversion Rights	<p>Each holder of the New Convertible Note agrees and undertakes to the Company that it shall not exercise any of the Conversion Rights to such an extent that results or will result in the holder thereof (or any of the parties acting in concert with it within the meaning of the Takeovers Code) being obliged to make a mandatory offer for all the Shares under the Takeovers Code unless prior approval or waiver from the Executive, and (where so required) approval of the whitewash waiver by the Shareholders, have been obtained in accordance with the requirements of the Takeovers Code (and where any conditions to which such approval or waiver is subject are duly complied with).</p>

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If the issue of the Conversion Shares pursuant to the exercise of the Conversion Right would result in the Company failing to meet its obligation under the Listing Rules to maintain the minimum prescribed percentage of the Shares which must at all times remain in public hands (as defined in the Listing Rules) (the “**Public Float Requirement**”), then such Conversion Right shall be deemed to have been exercised pursuant to such conversion notice such that the Company shall issue the maximum number of Conversion Shares under such conversion notice without breaching the Public Float Requirement. Any limitation on a Conversion Right with respect to a conversion notice shall be without prejudice whatsoever to any later exercise of the Conversion Rights pursuant to a subsequent conversion notice.

The restriction provision on exercise of the Conversion Rights under the New Convertible Notes are all the same.

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Events of default

Any holder of the New Convertible Note may give notice in writing that the relevant New Convertible Note shall be immediately due and payable at its principal amount then outstanding together with any accrued and unpaid interest calculated up to and excluding the date of payment upon the occurrence of any of the events including, inter alia, (1) the listing of the Shares on the main board of the Stock Exchange ceases permanently or is suspended for a continuous period of 21 Business Days (on each of which the Stock Exchange is generally open for trading) (due to default of the Company or any of its Directors, officers or employees); (2) change of control of the Company; (3) failure of the Company to pay under the relevant New Convertible Note and is not remedied for 7 Business Days after notice from such holder has been given; (4) the making of an order or the passing of an effective resolution for the winding up or dissolution, judicial management or administration of the Company or any of its material subsidiaries (except for member's voluntary solvent winding up) or the Company or any of its material subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations; (5) the making of an order or a decree by any competent court adjudging the Company or any of its material subsidiaries insolvent or bankrupt under the insolvency or bankruptcy laws of any jurisdiction; (6) inability of the Company or any of its material subsidiaries to pay debts as they fall due or entering into any composition, arrangement with or assignment for the benefit of its creditors generally; (7) any consent, license, approval or authorisation for the execution, delivery, performance, legality, validity, enforceability or admissibility in evidence of the relevant New Convertible Note is revoked or withheld or materially modified in a manner which shall materially and adversely affect the Company's ability to perform its obligations thereunder, or ceases to be in full force and effect; (8) it being impossible or unlawful in Hong Kong to pay the relevant New Convertible Note; (9) failure to deliver any Shares following the exercise of the Conversion Rights thereunder; (10) failure to perform or comply with any obligations under the relevant New Convertible Note (other than the event of default of (3) or (9) above) which default is incapable of remedy or, if capable of remedy, is not remedied within 45 days of written notice by such holder of the relevant New Convertible Note; (11) cross default after applicable grace period under any other indebtedness by the Company or any of its material subsidiaries which equals or exceeds HK\$50 million or its equivalent; (12) undischarged levied executions and the like for 60 days; and (13) any mortgage, charge, pledge, lien or encumbrance created by the Company or any of its material subsidiaries becomes enforceable and any step is taken to enforce it (including appointment of a receiver, manager or other similar person) and such enforcement is not discharged or stayed within 60 days. The holder(s) of the New Convertible Note(s) shall, where there is failure to issue the Conversion Shares, be entitled to bring an action against the Company for specific performance.

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Negative pledge

So long as any of the New Convertible Notes remains outstanding, the Group will not, and will ensure that none of its subsidiaries will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any indebtedness which is in the form of bonds, notes, debentures, loan stock, bearer participation certificates, depositary receipts, certificates of deposit or other similar securities or instruments which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange or over-the-counter or other securities market, or any guarantee or indemnity in respect of any such indebtedness, without at the same time or prior thereto according to the New Convertible Notes the same security as is created or subsisting to secure any such indebtedness, guarantee or indemnity or such other security as shall be approved by the holders of the New Convertible Notes (such approval not to be unreasonably withheld or delayed). The negative pledge provision under the New Convertible Notes are all the same.

Most favoured treatment

The Company shall not amend the pari passu ranking tenor, interest rate, conversion price, adjustment provisions to the conversion price, the conversion right, negative pledge and the events of default provisions under any of the New Convertible Notes or insert any additional provisions which are, in the opinion of any holder of the New Convertible Note, on terms and conditions more favourable to the New Convertible Note held by such holder unless at the same time: (a) the Company offers to amend the New Convertible Note held by such holder the effect of which is to give the benefit of such more favourable terms and conditions to such holder; and (b) to the extent that such holder accepts such offer.

Upon full conversion of the principal amount of the New GI Convertible Note of HK\$631,819,558 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing GI Note calculated up to the Long Stop Date) and the accrued interest thereon of HK\$94,772,933.70 (calculated from the date of issue of the New GI Convertible Note until its maturity assuming the date of issuance of the New GI Convertible Note is the Long Stop Date) at the initial Conversion Price, a maximum number of 605,493,743 New Shares with aggregate nominal value of HK\$12,109,874.86 will be issued, representing approximately 321.9% of the total existing issued share capital of the Company (taking into account the effect of the Capital Reorganisation), approximately 76.3% of the Company's total issued share capital as enlarged by the issue of the New GI Conversion Shares (taking into account the effect of the Capital Reorganisation) and approximately 17.3% of the Company's total issued share capital as enlarged by the issue of the New GI Conversion Shares and the New CTF Conversion Shares assuming full conversion thereof (taking into account the effect of the Capital Reorganisation).

Upon full conversion of the principal amount of the New CTF Convertible Note of HK\$2,825,017,185 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing CTF Note calculated up to the Long Stop Date) and the accrued interest thereon of HK\$423,752,577.75 (calculated from the date of issue of the New CTF

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Convertible Note until its maturity assuming the date of issuance of the New CTF Convertible Note is the Long Stop Date) at the initial Conversion Price, a maximum number of 2,707,308,135 New Shares with aggregate nominal value of HK\$54,146,162.70 will be issued, representing approximately 1,439.1% of the total existing issued share capital of the Company (taking into account the effect of the Capital Reorganisation), approximately 93.5% of the Company's total issued share capital as enlarged by the issue of the New CTF Conversion Shares (taking into account of the effect of the Capital Reorganisation) and approximately 77.3% of the Company's total issued share capital as enlarged by the issue of the New GI Conversion Shares and the New CTF Conversion Shares assuming full conversion thereof (taking into account the effect of the Capital Reorganisation).

Investors shall note that the Conversion Rights are subject to the conversion restrictions under the New Convertible Notes as set out above.

Conversion Price

The initial Conversion Price, being HK\$1.2 per New Share, represents:

- (i) a premium of approximately 11.1% over the adjusted closing price of HK\$1.08 per New Share (based on the closing price of HK\$0.108 per Existing Share as quoted on the Stock Exchange on the Last Trading Day adjusted for the effect of the Capital Reorganisation);
- (ii) a premium of approximately 15.4% over the adjusted average closing price of approximately HK\$1.04 per New Share (based on the average closing price of approximately HK\$0.104 per Existing Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation);
- (iii) a premium of approximately 17.6% over the adjusted average closing price of approximately HK\$1.02 per New Share (based on the average closing price of approximately HK\$0.102 per Existing Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation); and
- (iv) a premium of approximately 55.8% over the adjusted closing price of HK\$0.77 per New Share (based on the closing price of HK\$0.077 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date adjusted for the effect of the Capital Reorganisation).

The initial Conversion Price was arrived at after arm's length negotiation between the Company, the GI Subscriber and the CTF Subscriber after taking into account the following:

- (i) the prevailing closing price of the Shares which ranged from HK\$0.093 to HK\$0.116 during the three months immediately preceding the Last Trading Day and the initial Conversion Price represented a slight premium of approximately 3.4% over the highest closing price of the Shares (taking into account of the effect of the Capital Reorganisation) during such period;
- (ii) the trading volume of the Shares during the three months immediately preceding the Last Trading Day was relatively thin and in aggregate amounted to approximately 2.4% of the existing issued share capital of the Company; and

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- (iii) the Group has been loss-making in recent financial years and had recorded significant unaudited net liabilities of approximately HK\$4.6 billion as at 30 September 2019.

REASONS FOR THE SUBSCRIPTIONS AND USE OF PROCEEDS

The Group is principally engaged in mining, exploration, processing and sale of coal. The principal project of the Group is the Khushuut Coking Coal Project in Western Mongolia.

Although the Group was loss-making over the past two financial years ended 31 March 2018 and 2019, the Group was able to generate operating cash inflow before changes in working capital of approximately HK\$207.7 million and HK\$226.2 million for the financial years ended 31 March 2018 and 2019, respectively, and the net cash generated from the operating activities of the Group during the same period was approximately HK\$115.9 million and HK\$113.0 million, respectively. Based on the financial records of the Group for the two financial years ended 31 March 2018 and 2019 and six months ended 30 September 2019, the required average monthly working capital of the mining operation of the Group was approximately HK\$26.8 million, HK\$36.7 million and HK\$72.5 million respectively which was principally financed by the cashflow generated from the mining operation and internal resources of the Group. Based on information available to the Group as at the Latest Practicable Date, it is not expected to have material adverse change in the maximum working capital requirement of the mining operation of the Group in the coming twelve months and that the average monthly working capital requirements of the mining operation of the Group in the coming twelve months is estimated to be approximately HK\$64.4 million which could be satisfied by its internal generated cashflow and if necessary, supplemented by the loan financings currently available to the Group (including a standby revolving facility provided by Mr. Lo to the Company with a facility amount of HK\$1,900 million of which over HK\$900 million was undrawn as at the Latest Practicable Date). The aforementioned analysis is for illustrative purpose only regarding sufficiency of working capital for the Group's mining operation in the coming twelve months based on the historical records and the current information available as at the Latest Practicable Date which is inevitably subject to change from time to time due to variety of factors including unexpected market conditions and customers' demand.

The subscription money from the New GI Convertible Note will be used by the Company for full settlement of the entire outstanding principal amount and accrued interest under the Existing GI Note on the GI Completion Date. The subscription money from the New CTF Convertible Note will be used by the Company for full settlement of the entire outstanding principal amount and accrued interest of the Existing CTF Note on the CTF Completion Date.

After taking into account that: (i) the full settlement of the entire outstanding principal amounts and accrued interest of the Existing GI Note and the Existing CTF Note with the subscription price payable for the issue of the New Convertible Notes will not exert immediate cash outflow burden on the Group; (ii) the New Convertible Notes bear the same interest rate of 3% per annum as compared to the 2014 Notes of 3% per annum; (iii) the Subscriptions will secure the continuing financial support from the GI Subscriber and the CTF Subscriber to the Group's business development and operation; (iv) (a) the prevailing closing prices of the Shares which ranged from HK\$0.093 to HK\$0.116 per Share during the three months immediately preceding the Last Trading Day and the initial Conversion Price represented a slight premium of approximately 3.4% over the highest closing price of the Shares (taking into account of the effect of the Capital Reorganisation) during such period; (b) the trading volume of the Shares during the three months

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immediately preceding the Last Trading Day was relatively thin and in aggregate amounted to approximately 2.4% of the existing issued share capital of the Company, as compared to the maximum number of GI Conversion Shares (based on the initial Conversion Price) and CTF Conversion Shares (based on the initial Conversion Price) which in aggregate represent over 1,700% of the existing issued share capital of the Company; and (c) the net liabilities position of the Group may not be favourable to a fund raising exercise for substantial amount by way of issue of new Shares to independent third party(ies) or to existing Shareholders on a pro rata basis (e.g. rights issue and open offer) where considerable discount to the market price of the Shares would be required after the Company's enquiry of certain brokerage houses with no favourable responses; (v) upon conversion of the New Convertible Notes, the financial position of the Group would be improved, given the Group recorded unaudited net liabilities of approximately HK\$4.6 billion as at 30 September 2019; and (vi) based on preliminary discussions with the auditors of the Company, the Company believes the disclaimer of opinion in respect of the Company's consolidated financial statements will be removed provided that the Subscriptions will be completed before the publication of the financial results for the year ending 31 March 2020, the executive Directors consider that although the exercise of the Conversion Rights would result in dilution to the existing shareholding of the Company, the issue of the New Convertible Notes is still an appropriate debt restructuring plan for the Company.

In view of the above, the Board (including the independent non-executive Directors whose views have been set forth in the "Letter from the Independent Board Committee" of this circular) considers that the terms of the Subscription Agreements are on normal commercial terms and fair and reasonable, and the transactions contemplated under the Subscription Agreements are in the interests of the Group and the Shareholders as a whole.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company had share options granted under its share option scheme entitling the holders thereof to subscribe for an aggregate of 190,000,000 Existing Shares (the "Outstanding Share Options"). Save as disclosed above, as at the Latest Practicable Date, there were no other outstanding options, warrants, derivatives, or other securities which carry rights to subscribe for or be converted into Shares.

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The table below illustrates the shareholding structures of the Company as at the Latest Practicable Date under the following scenarios (assuming there is no other change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date up to the occurrence of the relevant events mentioned below):

- Scenario I: immediately upon Capital Reorganisation becoming effective and full conversion of the principal amount of the New GI Convertible Note of HK\$631,819,558 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing GI Note calculated up to the Long Stop Date) and the accrued interest thereon of HK\$94,772,933.70 (calculated from the date of issue of the New GI Convertible Note until its maturity assuming the date of issuance of the New GI Convertible Note is the Long Stop Date) at the initial Conversion Price only;
- Scenario II: immediately upon Capital Reorganisation becoming effective and full conversion of the principal amount of the New CTF Convertible Note of HK\$2,825,017,185 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing CTF Note calculated up to the Long Stop Date) and the accrued interest thereon of HK\$423,752,577.75 (calculated from the date of issue of the New CTF Convertible Note until its maturity assuming the date of issuance of the New CTF Convertible Note is the Long Stop Date) at the initial Conversion Price only;
- Scenario III: for illustration purpose only, occurrence of scenarios I and II above; and
- Scenario IV: for illustration purpose only, occurrence of scenarios I and II above, and exercise of all Outstanding Share Options and as a result of which 19,000,000 New Shares are allotted and issued.

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	As at the Latest Practicable Date (before the Capital Reorganisation becomes effective)									
			Scenario I		Scenario II		Scenario III		Scenario IV	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
			(Notes 5 & 6)		(Notes 5 & 6)		(Notes 5 & 6)		(Notes 5 & 6)	
The Concert Group										
GI Subscriber and its concert parties (Note 1)	303,197,075	16.1	635,813,450	80.1	30,319,707	1.1	635,813,450	18.1	640,813,450	18.2
CTF Subscriber and its concert parties (Note 2)	55,000,000	2.9	5,500,000	0.7	2,712,808,135	93.7	2,712,808,135	77.5	2,712,808,135	77.1
Dragon Noble Group Limited and its concert parties (Note 3)	98,667,500	5.3	9,866,750	1.3	9,866,750	0.3	9,866,750	0.3	9,866,750	0.3
Subtotal	456,864,575	24.3	651,180,200	82.1	2,752,994,592	95.1	3,358,488,335	95.9	3,363,488,335	95.6
Other directors of the Group (Note 4)	1,820,800	0.1	182,080	0.0	182,080	0.0	182,080	0.0	5,382,080	0.1
Other public Shareholders	1,422,573,124	75.6	142,257,312	17.9	142,257,312	4.9	142,257,312	4.1	151,057,312	4.3
Total	1,881,258,499	100.00	793,619,592	100.00	2,895,433,984	100.00	3,500,927,727	100.00	3,519,927,727	100.00

Notes:

- Among the 303,197,075 Existing Shares, 1,240,000 Existing Shares represent interest of Mr. Lo on an individual basis; while 301,519,575 Existing Shares represent interest of the GI Subscriber. The balance of 437,500 Existing Shares represent interest of Ms. Ku Ming Mei, Rouisa, the spouse of Mr. Lo.
- The CTF Subscriber is owned as to 99.7% by Chow Tai Fook (Holding) Limited. Approximately 81.03% of Chow Tai Fook (Holding) Limited is held by Chow Tai Fook Capital Limited which is in turn held as to approximately 48.98% by Cheng Yu Tung Family (Holdings) Limited and as to approximately 46.65% by Cheng Yu Tung Family (Holdings II) Limited.
- Dragon Noble Group Limited is a company wholly and beneficially owned by Dr. Cheng Kar Shun.
- Other directors of the Group include Ms. Yvette Ong, Mr. To Hin Tsun, Gerald, Mr. Tsui Hing Chuen, William *J.P.*, Mr. Lau Wai Piu, Mr. Lee Kee Wai, Frank and Mr. Tang Chi Kei.
- Pursuant to the terms of the New Convertible Notes, each holder of the New Convertible Note agrees and undertakes to the Company that it shall not exercise any of the Conversion Rights to such an extent that results or will result in the holder thereof (or any of the parties acting in concert with it within the meaning of the Takeovers Code) being obliged to make a mandatory offer for all the Shares under the Takeovers Code unless prior approval or waiver from the Executive, and (where so required) approval of the whitewash waiver by the Shareholders, have been obtained in accordance with the requirements of the Takeovers Code (and where any conditions to which such approval or waiver is subject are duly complied with). Accordingly, the scenarios above are shown for illustrative purpose only.
- Pursuant to the terms of the New Convertible Notes, if the issue of the Conversion Shares pursuant to the exercise of the Conversion Right would result in the Company failing to meet the Public Float Requirements, such Conversion Right shall be deemed to have been exercised pursuant to such conversion notice such that the

LETTER FROM THE BOARD

Company shall issue the maximum number of Conversion Shares under such conversion notice without breaching the Public Float Requirement. Accordingly, the scenarios above are shown for illustrative purpose only.

FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

The Company had not conducted any fund raising activities in the 12 months prior to the date of the Announcement and up to the Latest Practicable Date.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the GI Subscriber held 301,519,575 Shares, representing approximately 16.03% of the existing issued share capital of the Company. As the GI Subscriber is a substantial Shareholder and its sole beneficial owner is an executive Director, the GI Subscriber is a connected person of the Company and the GI Subscription constitutes a connected transaction for the Company and is subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. Mr. Lo, who has a material interest in the New GI Subscription, has abstained from voting on the Board's resolution approving the New GI Subscription.

The Conversion Shares to be allotted and issued pursuant to the New Convertible Notes are proposed to be issued pursuant to a specific mandate to be granted by the Independent Shareholders by way of poll at the SGM.

Given that each of the Subscription Agreements is conditional on one another, all the transactions contemplated under the Subscription Agreements will be subject to the approval of the Independent Shareholders by way of poll at the SGM and the GI Subscriber and its associates (who held 303,197,075 Existing Shares in aggregate as at the Latest Practicable Date, representing approximately 16.1% of the existing issued share capital of the Company), and the CTF Subscriber and its associates (who held 153,667,500 Existing Shares as at the Latest Practicable Date, representing approximately 8.2% of the existing issued share capital of the Company) will abstain from voting on the proposed resolution to approve the Subscriptions at the SGM.

An application will be made to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares. Upon completion of the Subscriptions, an announcement regarding the respective principal amounts of the New Convertible Notes and the number of Conversion Shares issuable thereunder will be made by the Company.

SGM

Set out on pages SGM-1 to SGM-4 is a notice convening the SGM to be held at 22nd Floor, United Centre, 95 Queensway, Hong Kong, on Friday, 7 February 2020 at 11:00 a.m. at which resolutions will be proposed to consider and, if thought fit, to approve the Capital Reorganisation, the Subscription Agreements and the respective transactions contemplated thereunder.

LETTER FROM THE BOARD

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders on the resolutions to be proposed at the SGM will be taken by way of poll. An announcement on the poll results will be made by the Company after the SGM in manner prescribed under Rule 13.39(5) of the Listing Rules.

As completion of the Subscription Agreements is conditional upon satisfaction of the respective conditions set out in the Subscription Agreement, the Subscriptions may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares and if they are in any doubt about their position, they should consult their professional advisers.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 32 to 33 of this circular and the letter from Somerley on pages 34 to 54 of this circular which contains their advice to the Independent Board Committee and the Independent Shareholders regarding the Subscription Agreements and the transactions contemplated thereunder as well as the principal factors and reasons taken into consideration in arriving at their advice.

The Directors, including the independent non-executive Directors, consider that the terms of the Subscription Agreements and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors, including the independent non-executive Directors, recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Subscription Agreements and the respective transactions contemplated thereunder. You are advised to read the letter from the Independent Board Committee and the letter from Somerley mentioned above before deciding how to vote at the SGM.

The Directors also consider that the Capital Reorganisation is in the interest of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the proposed resolution approving the Capital Reorganisation at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

By order of the Board of
Mongolia Energy Corporation Limited
Lo Lin Shing, Simon
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the full text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Subscriptions which has been prepared for the purpose of inclusion in this circular.

MEC

MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 276)

7 January 2020

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF THE NEW GI CONVERTIBLE NOTE AND THE NEW CTF CONVERTIBLE NOTE

We refer to the circular of the Company dated 7 January 2020 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you on the terms of the Subscription Agreements and the respective transactions contemplated thereunder. Somerley has been appointed as the independent financial adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 34 to 54 of the Circular.

Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information set out in the appendix thereto.

Having considered the terms of the Subscription Agreements and the respective transactions contemplated thereunder and taking into account the independent advice of Somerley, in particular the principal factors, reasons and recommendation as set out in their letter, we consider that the terms of the Subscription Agreements and the respective transactions contemplated thereunder are on normal commercial terms, the terms of the Subscription Agreements and the respective transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Subscription Agreements and the transactions contemplated thereunder are in the interests of the Company

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

and the Independent Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolution to be proposed at the SGM to approve the entering into of the Subscription Agreements by the Company and the respective transactions contemplated thereunder.

Yours faithfully,

Independent Board Committee

Tsui Hing Chuen, William , Lau Wai Piu Lee Kee Wai, Frank

Independent non-executive Directors

LETTER FROM SOMERLEY

The following is the text of a letter received from Somerley Capital Limited setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions for inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

7 January 2020

*To the Independent Board Committee and the Independent Shareholders of
Mongolia Energy Corporation Limited*

Dear Sir or Madam,

(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF THE NEW GI CONVERTIBLE NOTE; AND (2) SUBSCRIPTION OF THE NEW CTF CONVERTIBLE NOTE

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions, details of which are set out in the circular of the Company dated 7 January 2020 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 28 November 2019 (after trading hours), the Company entered into the following:

- (i) the GI Subscription Agreement with GI Subscriber pursuant to which the Company (as issuer) has conditionally agreed to issue and the GI Subscriber (as subscriber) has conditionally agreed to subscribe for the New GI Convertible Note; and
- (ii) the CTF Subscription Agreement with CTF Subscriber pursuant to which the Company (as issuer) has conditionally agreed to issue and the CTF Subscriber (as subscriber) has conditionally agreed to subscribe for the New CTF Convertible Note.

As at the Latest Practicable Date, the GI Subscriber holds 301,519,575 Shares, representing approximately 16.03% of the existing issued share capital of the Company. As the GI Subscriber is a substantial Shareholder and its sole beneficial owner is an executive Director, the GI Subscriber is a connected person of the Company and the GI Subscription constitutes a connected transaction for the Company and is subject to reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules.

LETTER FROM SOMERLEY

The Conversion Shares to be allotted and issued pursuant to the New Convertible Notes are proposed to be issued pursuant to a specific mandate to be granted by the Independent Shareholders by way of poll at the SGM. Given that each of the Subscription Agreements is conditional to one another, all the transactions contemplated under the Subscription Agreements will be subject to the approval of the Independent Shareholders by way of poll at the SGM and the GI Subscriber, the CTF Subscriber and their respective associates will abstain from voting on the proposed resolution to approve the Subscriptions at the SGM.

Pursuant to the Listing Rules, the Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Tsui Hing Chuen, William *JP*, Mr. Lau Wai Piu and Mr. Lee Kee Wai, Frank, has been established to advise the Independent Shareholders as to whether the Subscriptions are fair and reasonable and to advise the Independent Shareholders on how to vote on the proposed ordinary resolution in respect thereof at the SGM. We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regards and our appointment has been approved by the Independent Board Committee.

BASIS OF OUR ADVICE

We are not connected with the Company, the GI Subscriber, the CTF Subscriber or any of their respective close associates or core connected persons (as defined in the Listing Rules) and accordingly, are considered suitable to give independent advice on the Subscriptions. In the past two years prior to this appointment, we did not have any engagement with the Company or its associates. Apart from the normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the GI Subscriber, the CTF Subscriber or any of their respective close associates or core connected persons.

In formulating our opinion and recommendation, we have reviewed, amongst others, the Announcement, the Subscription Agreements, the interim report of the Company for the six months period ended 30 September 2019 (the “**2019 Interim Report**”), the annual reports of the Company for the two financial years ended 31 March 2019 (the “**2019 Annual Report**”) and 31 March 2018, the existing notes of the Company and the information contained in the Circular. We have also discussed with and reviewed the information provided by the management of the Group regarding the businesses and outlook of the Group.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group, which we have assumed to be true, accurate, complete and not misleading in all material aspects as at the date of this letter and will remain as at the date of the SGM. The Independent Shareholders will be informed as soon as possible if we become aware of any material change to such information up to the date of completion of the Subscriptions. We have sought and received confirmation from the Directors and the management of the Group that no material facts have been omitted from the information supplied and opinions expressed by them to us. We consider that the information which we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information supplied.

LETTER FROM SOMERLEY

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have considered the following principal factors and reasons:

1. Business and financial information on the Group

(a) Business of the Group

The Company is a public limited liability company incorporated in Bermuda and its Shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in coal mining and exploration. The principal project of the Group is the coking coal mining project in Khushuut, Khovd Province, Western Mongolia (the “**Khushuut Coking Coal Project**”, the mine site of which is known as the “**Khushuut Coal Mine**”). During the financial year ended 31 March 2019, approximately 1.8 million tonnes of run-of-mine (“**ROM**”) coal were produced and approximately 676,625 tonnes of coal, including clean coking coal, raw coal and thermal coal, were sold to our customers during the financial year.

(b) Financial information on the Group

The following are summaries of the consolidated statement of profit or loss of the Group for each of the financial years ended 31 March 2018 (“**FY2018**”) and 31 March 2019 (“**FY2019**”), and each of the six months period ended 30 September 2018 (“**1H2018**”) and 30 September 2019 (“**1H2019**”), as extracted from the 2019 Annual Report and the 2019 Interim Report respectively.

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	For the six months		For the financial	
	ended 30 September		year ended	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	800,146	360,372	776,708	637,362
Cost of sales	<u>(434,834)</u>	<u>(207,485)</u>	<u>(440,910)</u>	<u>(322,136)</u>
Gross profit	365,312	152,887	335,798	315,226
Reversal of impairment loss (impairment loss) on financial assets	11	(2,508)	(1,348)	(191)
Changes in fair value on derivative component of convertible notes	81	63,584	63,542	234,623
Administrative expenses	(74,532)	(64,356)	(132,510)	(144,029)
(Impairment loss) reversal of impairment loss on property, plant and equipment, intangible assets, right-of-use assets and prepaid lease payment (collectively, "Mining Assets")	(307,248)	–	429,678	116,489
Other income/(expenses)	2,132	(35,255)	(23,722)	(40,711)
Finance costs	<u>(409,993)</u>	<u>(354,017)</u>	<u>(735,263)</u>	<u>(626,421)</u>
Loss before taxation	(424,237)	(239,665)	(63,825)	(145,014)
Income tax (expense)/credit	<u>(62,829)</u>	<u>3,520</u>	<u>19,400</u>	<u>(14,924)</u>
Loss for the period/year attributable to owners of the Company	<u>(487,066)</u>	<u>(236,145)</u>	<u>(44,425)</u>	<u>(159,938)</u>

Revenue of the Group for the entire review period were contributed from mining and sale of coal. Revenue increased by approximately 21.9% from HK\$637.4 million in FY2018 to approximately HK\$776.7 million in FY2019 mainly due to higher sales volumes and average coking coal prices during the year. The Group produced approximately 1.8 million tonnes of ROM coal during FY2019, which was an increase of around 38.5% from approximately 1.3 million tonnes in the previous financial year. Revenue increased remarkably by approximately 122.0% from HK\$360.4 million in 1H2018 to approximately HK\$800.1 million in 1H2019 as a result of higher sales volume. During the period, the Group sold approximately 618,800 tonnes

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clean coking coal in 1H2019, up by around 119.0% from approximately 282,500 tonnes in 2018 and sold approximately 77,200 tonnes of thermal coal, up by around 1,278.6% from approximately 5,600 tonnes in 2018.

Cost of sales, which includes items such as mining costs, coal processing costs, transportation costs, costs on disposal of coal refuse and other relevant operating expenses associated with the Company's business operations increased at a faster pace from approximately HK\$322.1 million in FY2018 to approximately HK\$440.9 million in FY2019, representing a hike of approximately 36.9%. Such increase in cost of sales for FY2019 was due to higher sales volume, higher transportation costs and additional operating costs at Uyench customs bond yard incurred in FY2019. As such, despite the revenue increase, gross profit for FY2019 only reported a marginal increase of approximately 6.5% in FY2019. Cost of sales of the Group was approximately HK\$434.8 million in 1H2019, up by around 109.5% from approximately HK\$207.5 million in 1H2018.

As mentioned above, whilst the growth of cost of sales outpaced the growth of revenue in FY2019, gross profit only recorded a mild increase from approximately HK\$315.2 million in FY2018 to approximately HK\$335.8 million in FY2019. Gross profit for 1H2019 however recorded a remarkable increase by approximately 138.9% to approximately HK\$365.3 million over 1H2018 due to higher sales volume and lower mining cost per ROM tonne during the period.

Impairment loss on financial assets increased by approximately 605.8% in FY2019 which was mainly a result of additional allowance for credit losses in trade and bills receivables of approximately HK\$1.1 million as compared to zero in FY2018. Impairment loss on financial assets declined substantially from around HK\$2.5 million in 1H2018 to a reversal of impairment loss of approximately HK\$11,000.0 in 1H2019 mainly as a result of improvement in credit control to hold bill receivables issued by banks with higher credit ranking.

The derivative components of the existing convertible notes of the Company were initially recorded at fair value at their respective issue dates and re-measured at the end of each reporting period. Changes in fair value on derivative component of convertible notes recorded declined by approximately 72.9% from approximately HK\$234.6 million in FY2018 to approximately HK\$63.5 million in FY2019, and a further decline by approximately 99.9% in 1H2019 as compared to that of approximately HK\$63.6 million in 1H2018. Such decline was mainly as a result of changes in inputs used in the binomial valuation model, e.g. conversion option approaching maturity coupled with further declines in stock price contributed to a lower valuation of the derivative component of the convertible notes.

The Company reported a reversal of impairment loss on Mining Assets of approximately HK\$429.7 million in FY2019, representing an increase of approximately 268.8% as compared to approximately HK\$116.5 million in FY2018. Such adjustment was related to the assets of the Khushuut Coking Coal Project and was largely due to the improvement from the estimated drop of coking coal selling price adopted in the valuation of the Group's Khushuut mine assets by the independent qualified professional valuer. However,

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the Group reported an impairment loss on Mining Assets of approximately HK\$307.2 million in 1H2019 as compared to nil in 1H2018 which was a result of, including but not limited to, the worsening of the estimated drop of coking coal selling price adopted in the calculation by the independent professional valuer.

Administrative expenses of the Group, which mainly comprised (i) staff costs and benefits; (ii) legal and professional fees; and (iii) rental and utilities expenses, marginally decreased by approximately 8.0% in FY2019 mainly due to the fact that no share options were granted during the financial year and lower audit, legal and other professional expenses incurred during FY2019. Administrative expenses increased by approximately 15.8% in 1H2019 as compared to 1H2018 mainly due to an increase in community expense of approximately HK\$6.5 million in respect of funding for the relocation of a village in proximity of the Khushuut mine.

Finance costs represent mainly the effective interest expense on the convertible notes and interest charge on advances from a Director. Finance costs of the Group for FY2019 amounted to approximately HK\$735.3 million, representing an increase by approximately 17.4% from approximately HK\$626.4 million in FY2018, and amounted to approximately HK\$410.0 million for 1H2019, representing an increase by around 15.8% as compared to that of 1H2018. Such increases were due to the ongoing accumulation of interest charged pursuant to liabilities outstanding during the respective reporting periods.

Loss attributable to owners of the Company for FY2019 substantially narrowed from approximately HK\$159.9 million for FY2018 to approximately HK\$44.4 million for FY2019, mainly due to the increased reversal of impairment loss associated with Mining Assets of approximately HK\$429.7 million recorded in FY2019. Despite of the substantial growth in revenue for 1H2019, loss attributable to owners of the Company for 1H2019, however, enlarged by approximately 106.3% to approximately HK\$487.1 million as compared to HK\$236.1 million in 1H2018 as a result of mainly the impairment loss associated with Mining Assets of approximately HK\$307.2 million in 1H2019 as compared to nil in 1H2018 and the increased finance costs during the period.

The following are summaries of the consolidated statements of the financial position of the Group as at 31 March 2019 and 30 September 2019 as extracted from the 2019 Interim Report.

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	As at	
	30 September 2019 <i>HK\$'000</i>	31 March 2019 <i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	546,726	801,774
Other non-current assets	69,819	101,974
	616,545	903,748
Current assets		
Trade and bills receivables	323,071	240,515
Inventories	155,643	131,231
Other receivables, prepayments and deposits	105,483	72,798
Cash and cash equivalents	102,284	65,399
Other current assets	96,003	101,432
	782,484	611,375
Current liabilities		
Convertible notes	3,885,297	3,546,397
Advances from a Director	1,746,105	1,811,728
Other current liabilities	339,047	262,245
	5,970,449	5,620,370
Net current liabilities	(5,187,965)	(5,008,995)
Total assets less current liabilities	(4,571,420)	(4,105,247)
Non-current liabilities		
Deferred tax liabilities	35,058	–
Other non-current liabilities	9,894	7,378
	44,952	7,378
Capital deficiencies attributable to owners of the Company	(4,616,372)	(4,112,625)

LETTER FROM SOMERLEY

Non-current assets of the Group as at 31 March 2019 and 30 September 2019 mainly comprised, among other things, property, plant and equipment, intangible assets and other assets mainly associated with the Khushuut Coking Coal Project. The balance of total non-current assets declined from approximately HK\$903.7 million on 31 March 2019 to approximately HK\$616.5 million on 30 September 2019, representing a decline of approximately 31.8%. Such decrease was mainly due to the recognition of an approximately HK\$307.2 million impairment loss on Mining Assets during the period.

Current assets of the Group as at 31 March 2019 and 30 September 2019 mainly comprised trade and bills receivables, inventories, other receivables, prepayments and deposits and cash and cash equivalents. The Group's current assets as at 30 September 2019 showed an increase by approximately 28.0% from the balance as at 31 March 2019, which was contributed to the overall increase in balances of the aforesaid key components as a result of the remarkable growth of the Group's business during 1H2019. The Group had cash and cash equivalents of approximately HK\$102.3 million as at 30 September 2019.

Current liabilities of the Group as at 31 March 2019 and 30 September 2019 comprised, among other things, the 2014 Notes, the three other 3% convertible notes due 21 November 2019 (the "**Other Notes**") for retiring the outstanding principal amounts and accrued interest of convertible notes previously issued and the advances from a director which are related to a facility granted by Mr. Lo and are unsecured, repayable on demand and carry an interest rate at the Hong Kong Dollar Prime Rate plus 3% per annum. The balance for total current liabilities marginally increased by approximately 7.1% from approximately HK\$5.6 billion as at 31 March 2019 to approximately HK\$6.0 billion as at 30 September 2019 mainly as a result of the increases in the carrying value of the 2014 Notes and the Other Notes from approximately HK\$3.5 billion as at 31 March 2019 to approximately HK\$3.9 billion as at 30 September 2019 due to ongoing accumulation of interest charged under liabilities outstanding. The balance of the advances from a director as at 30 September 2019 declined by around 3.6% as compared to balance as at 31 March 2019, which was due to partial repayments of the facility owing to Mr. Lo during the period.

The 2014 Notes and the Other Notes were matured on 21 November 2019. As disclosed in the 2019 Interim Report, on 21 November 2019, the Company entered into the Standstill Agreements with the GI Subscriber and the CTF Subscriber to stay the repayment of all outstanding amount under the 2014 Notes. Under the Standstill Agreements, each of the GI Subscriber and the CTF Subscriber agreed to extend the repayment of the 2014 Notes from 21 November 2019 to 21 May 2020 with the interest rate of 3% per annum unchanged. It is further disclosed in the 2019 Interim Report that the Other Notes with the aggregate principal amount of approximately HK\$499.9 million were taken up by Mr. Lo through Ruby Pioneer Limited ("**Ruby Pioneer**"), a company wholly-owned by him on the maturity date ("**RP Note**") and immediately after this, the Company and Ruby Pioneer entered into the RP Standstill Agreement pursuant to which Ruby Pioneer has agreed to extend the time of repayment of the aggregate amount outstanding under the RP Note for five years from 21 November 2019 to 21 November 2024 while the interest on the principal amount of the RP Note shall continue to accrue at the interest rate of 3% per annum.

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The balance of non-current liabilities as at 30 September 2019 was mainly comprised of deferred tax liabilities of HK\$35.1 million. Such deferred tax liabilities were mainly due to the provision of deferred taxation of approximately HK\$51.6 million in 1H2019, netted off by the deferred tax assets of HK\$16.5 million as at 31 March 2019.

The balance of total assets less current liabilities as at 30 September 2019 widened to approximately HK\$4.6 billion as compared to approximately HK\$4.1 billion as at 31 March 2019 mainly due to reasons as mentioned above. Capital deficiencies attributable to owners of the Company per Share as at 30 September 2019 was approximately HK\$2.45 per Existing Share (based on the total number of issued Shares of 1,881,258,499 as at the Latest Practicable Date) or approximately HK\$24.5 per New Share (as adjusted for the effect of the Capital Reorganisation). It was stated in the 2019 Annual Report that, in view of the significance of the extent of the uncertainty relating to the ongoing availability of finance to the Group, the auditors of the Company disclaimed their opinion in respect of the financial year ended 31 March 2019 (the “**Disclaimer**”).

2. Reasons for and use of proceeds of the Subscriptions

As set out in the letter from the Board of the Circular, the subscription money from the New GI Convertible Note will be used by the Company for full settlement of the entire outstanding principal amount and accrued interest under the Existing GI Note on the GI Completion Date. The subscription money from the New CTF Convertible Note will be used by the Company for full settlement of the entire outstanding principal amount and accrued interest of the Existing CTF Note on the CTF Completion Date.

We note that after taking into account that: (i) the full settlement of the entire outstanding principal amounts and accrued interest of the Existing GI Note and the Existing CTF Note with the subscription price payable for the issue of the New Convertible Notes will not exert immediate cash outflow burden on the Group; (ii) the New Convertible Notes bear the same interest rate of 3% per annum as compared to the 2014 Notes of 3% per annum; (iii) the Subscriptions will secure the continuing financial support from the GI Subscriber and the CTF Subscriber to the Group’s business operation; (iv) the prevailing market price and trading volume of the Shares and the net liabilities position of the Group may not be favourable to a fund raising exercise for substantial amount by way of issue of new Shares to independent third party(ies) or to existing Shareholders on a pro rata basis (e.g. rights issue and open offer) where considerable discount to the market price of the Shares would be required after the Company’s enquiry of certain brokerage houses with no favourable responses; and (v) upon conversion of the New Convertible Notes, the financial position of the Group would be improved, the executive Director considers that the issue of the New Convertible Notes is an appropriate debt restructuring plan for the Company.

As discussed under the section headed “*1. Business and financial information of the Group*” and as disclosed in the 2019 Annual Report and the 2019 Interim Report, the Group has been reporting consecutive net losses attributable to owners of the Company since at least financial year ended 31 March 2015 and has been in net liabilities position since 31 March 2015 and in particular, the total net liabilities of the Group has widened from approximately HK\$3.2 billion as at 31 March 2015 to approximately HK\$4.6 billion for 1H2019. In addition, the Group has also reported net

LETTER FROM SOMERLEY

current liabilities for both 31 March 2019 and 30 September 2019, and had cash and cash equivalents of only approximately HK\$102.3 million as at 30 September 2019 which is not sufficient to repay the expired 2014 Notes. In view of (i) the encouraging growth recorded in the business of the Khushuut Coking Coal Project as discussed under the section headed “*1. Business and financial information on the Group*” above; and (ii) the abovementioned cash level, existing total debt level of the Group and the pressure of repayment of the expired 2014 Notes, we agree with the Directors’ view that a refinancing arrangement is necessary for the Group to refinance the expired 2014 Notes and to free up general working capital for the Group for operation of the Khushuut Coking Coal Project.

3. Financing alternatives available to the Group

We have reviewed whether there are other financing alternatives which were available to the Group other than the Subscriptions and examined the reasons why they were not adopted.

As advised by the management of the Group, the Company has considered other forms of equity financing. However, considering the (i) prevailing market prices of the Shares, which has shown a decline by approximately 20.6% from HK\$0.136 each on 10 June 2019, being roughly six months prior to the Last Trading Day, to HK\$0.108 each on the Last Trading Day; (ii) the thin daily trading volume of the Shares, which averaged at only approximately 559,486 per a day during the period from 3 June 2019 (being the first trading day of the month) to the Last Trading Day, which represented an approximate 0.03% of total issued Share capital of the Group of 1,881,258,499; and (iii) as discussed in the section headed “*1. Business and financial information of the Group*” and further elaborated in the section headed “*2. Reasons for and use of proceeds of the Subscriptions*”, the Group has been reporting consecutive net losses attributable to owners of the Company and its net liabilities position, any form of equity financing, including those that are pro rata in nature such as rights issue or open offer, may not be favourable without substantial discounts to its Share price. We note the Company has enquired several securities and brokerage houses and there were no favourable responses in this regard. Furthermore, fund raising by way of new Share placement will create immediate dilution on the shareholding of the existing Shareholders. We have further discussed and understand from the Management that the Company has also approached its banker to explore the possibility of additional borrowings. Based on their discussions, the Company was given to understand that the given the current global and regional economic environment, and the current financial performance and position of the Group, the respective bank is reluctant to provide additional financing without additional asset backing and/or interest rates that are higher than the existing borrowing rates of the Company. As such, the issue of the New Convertible Notes, which not only could meet the immediate pressing need for the refinancing of the 2014 Notes without causing immediate dilution to the shareholding of the independent Shareholders, is also priced at a premium over the prevailing market Share price, is therefore considered the most preferable financing option amongst the other alternatives.

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4. Principal terms of the New Convertible Notes

(a) *Subject*

Pursuant to the GI Subscription Agreement, the Company conditionally agreed to issue and the GI Subscriber conditionally agreed to subscribe for the New GI Convertible Note at the subscription price which will be used for full settlement of the entire outstanding principal amount and accrued interest under the Existing GI Note due and owing by the Company to the GI Subscriber on the GI Completion Date. The outstanding sum under the Existing GI Note (including principal and interest) was HK\$624,019,133 as at the date of the GI Subscription Agreement and will be HK\$631,819,558 as at the Long Stop Date.

On the same date, the CTF Subscription Agreement was entered into, pursuant to which the Company conditionally agreed to issue and the CTF Subscriber conditionally agreed to subscribe for the New CTF Convertible Note at the subscription price which will be used for full settlement of the entire outstanding principal amount and accrued interest under the Existing CTF Note due and owing by the Company to the CTF Subscriber on the CTF Completion Date. The outstanding sum under the Existing CTF Note (including principal and interest) was HK\$2,790,139,069 as at the date of the CTF Subscription Agreement and will be HK\$2,825,017,185 as at the Long Stop Date.

The principal terms of the New Convertible Notes are set out in the letter from the Board of the Circular. Our analyses of each of them are set out below. We note that, save for the principal amount, all other principal terms of the New Convertible Notes are largely similar to those of the 2014 Notes.

(b) *Conversion Price*

The initial Conversion Price (subject to adjustments as set out in the section headed “*Principal terms of the New Convertible Notes*” in the letter from the Board of the Circular), being HK\$1.20 per New Share, represents:

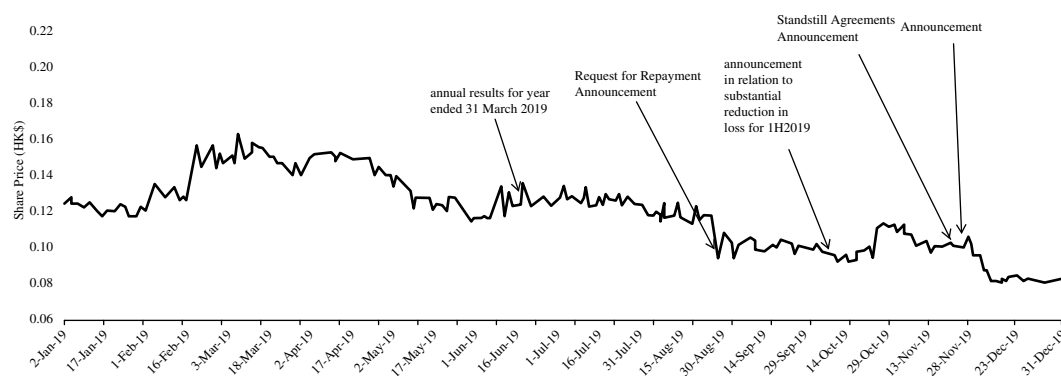
- (i) a premium of approximately 11.1% over the closing price of HK\$1.08 per New Share (based on a closing price of HK\$0.108 per Existing Share as quoted on the Stock Exchange on the Last Trading Day adjusted for the effect of the Capital Reorganisation);
- (ii) a premium of approximately 15.4% over the average closing price of approximately HK\$1.04 per New Share (based on the average closing price of approximately HK\$0.104 per Existing Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day adjusted for the effect of the Capital Reorganisation);

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- (iii) a premium of approximately 17.6% over the average closing price of approximately HK\$1.02 per New Share (based on the average closing price of approximately HK\$0.102 per Existing Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day adjusted for the effect of the Capital Reorganisation); and
- (iv) a premium of approximately 55.8% over the closing price of HK\$0.77 New Share (based on the closing price of approximately HK\$0.077 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date adjusted for the effect of the Capital Reorganisation).

The Conversion Price was arrived at after arm's length negotiation between the Company, the GI Subscriber and the CTF Subscriber after taking into account the prevailing market price of the Shares, the operation and financial performance of the Group, the current market conditions and the consolidated net liabilities position of the Company as at 30 September 2019.

In order to assess the fairness and reasonableness of setting the initial Conversion Price at HK\$1.20 per Conversion Share, we have analysed the recent Share price performance. Set out in the chart below are the historical closing price and trading volume of the Shares from the beginning of 2019 and up to and including the Latest Practicable Date (the “**Review Period**”).



Source: Website of the Stock Exchange

During the Review Period, the closing prices of the Shares demonstrated a general decreasing trend since March 2019 and ranged from the highest of HK\$0.167 per Share to the lowest of HK\$0.093 per Share, with an average of approximately HK\$0.125 per Share.

Share closing price was HK\$0.127 each on 2 January 2019 and showed a gradual increase to the peak of HK\$0.167 each on 6 March 2019. Since then, the Share closing price returned to a general decreasing trend and gradually dropped to HK\$0.138 each on 18 June 2019, being the trading day immediately prior to the publication of its annual results announcement for the financial year ended 31 March 2019. Following the publication of the Company's annual results announcement for the financial year ended 31 March 2019 on 18

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June 2019 after trading hours, closing price of the Shares declined by 5.1% to HK\$0.131 each on 19 June 2019. The Company's Shares then declined to a recent low of HK\$0.095 each on 28 August 2019 after the publication of an inside information announcement in relation to the failure of the Company to obtain agreement from one of its existing convertible note holders to refinance its existing outstanding convertible notes (the "**Request for Repayment Announcement**"). Trading in the Shares then closed at around the HK\$0.10 level till end of October 2019, despite a slight rebound in end of October to HK\$0.116 each on 28 October 2019. Immediately following the publication of the Announcement on 28 November 2019 (after trading hours), Share price dropped by around 9.7% and closed at HK\$0.093 each on 29 November 2019. As shown above, since then the Shares closed within the range between HK\$0.074 each and HK\$0.093 each and closed at HK\$0.077 each on the Latest Practicable Date.

We note the initial Conversion Price of HK\$1.20 per New Share represents a discount of approximately 4.0% to the average closing price of the Shares of approximately HK\$1.25 each (adjusted for the effect of the Capital Reorganisation) prior to the publication of the Announcement. However, given (i) that the initial Conversion Price represents a premium over the prevailing market price of the Shares as discussed in detail under the section headed "*4. Principal terms of the New Convertible Notes – (b) Conversion Price*" above; and (ii) the reasons outlined under the section headed "*2. Reasons for and use of proceeds from the Subscriptions*", coupled with the current financial performance and position of the Group as a whole, in particular, the net liabilities position and the consecutive losses attributable to owners of the Company as discussed under the section headed "*1. Business and financial information of the Group*" as well as the lack of financing alternatives available to the Group as discussed under the section headed "*3. Financing alternatives*", we consider the initial Conversion Price to be fair and reasonable as the prevailing Share trading performance is concerned.

(c) Maturity

Fifth anniversary of the date of issue of the New Convertible Notes (or such later date as consented by the respective holders of the New Convertible Notes).

(d) Conversion, repurchase and redemption

A holder of the New Convertible Note shall have the right to convert the whole or any part (comprising the outstanding principal amount and any accrued but unpaid interest thereon and in the denomination as stated above) of the New Convertible Note into Conversion Shares at the Conversion Price (subject to adjustments) on any Business Day from the date of issue of the New Convertible Note and up to the Business Day immediately prior to the maturity date of the New Convertible Note.

The Company shall redeem at 100% of the outstanding principal amounts of the New Convertible Notes on the maturity date. The Company or any of its subsidiaries may at any time and from time to time repurchase the New Convertible Notes or any part thereof at any price, in the open market or otherwise, as may be agreed between the Company or such

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subsidiary and the holder(s) of the New Convertible Note(s) (as the case may be). The New Convertible Note(s) or any part thereof so purchased shall forthwith be cancelled by the Company. The Company may, at any time after the issue date of the New GI Convertible Note or the New CTF Convertible Note (as the case may be) on giving not less than ten (10) Business Days' notice in writing to the holder thereof, elect to redeem the whole or any part (in authorised denominations of HK\$1,000) then outstanding.

We consider the above terms of the New GI Convertible Note and the New CTF Convertible Note to be favourable to the Company as the Company has more flexibility in the timing of retiring the New GI Convertible Note and the New CTF Convertible Note.

(e) Interest rate

3% per annum will be charged on the principal amount from time to time outstanding, and, unless previously redeemed, repaid or converted into Shares, payable in arrears on the maturity date of the New Convertible Notes (as the case may be).

Having taken into account the fact that (i) the refinancing requirement of the Group as discussed in the section headed "2. Reasons for and use of proceeds of the Subscriptions" above in this letter; (ii) the issue of the New Convertible Notes is the preferred method of financing in light of prevailing market prices and trading volume of the Shares and the current financial position of the Group as discussed in the section headed "3. Financing alternatives available to the Group" above in this letter; (iii) the interest rate of 3% per annum of the New Convertible Notes compares favourably against the average interest rates charged by the Comparable Transactions (as defined below) as further discussed in the section headed "5. Comparable Transactions" below; and (iv) the unsecured nature of the New Convertible Notes, we consider that the 3% interest rate attached to the New Convertible Notes to be acceptable.

(f) Other terms of the New Convertible Notes

The New Convertible Notes are freely transferrable, in whole or in part (being an authorised denomination of HK\$1,000) of the outstanding principal amount, to any person, subject to the terms of the New Convertible Notes, the Listing Rules and all applicable laws and regulations. We consider the availability of such terms provides protection to the Company for the purposes of general regulatory compliance and such terms are also in line with market practice.

5. Comparable Transactions

In assessing the terms of the New Convertible Notes, we have also reviewed a number of comparable transactions took place during the Review Period which involved the issue of convertible bonds/notes under specific mandate (the "Comparable Transactions"). The Comparable Transactions are selected based on the following criteria: (i) the issuers are listed on the Main Board of the Stock Exchange (excluding company(ies) under prolonged suspension) and such transactions are publicly announced pursuant to the Listing Rules since 1 January 2019; (ii) the

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convertible bonds/notes have a duration of 3 to 5 years; (iii) the transactions has not been terminated or lapsed as at the Latest Practicable Date; and (iv) the convertible bonds/notes were not issued as a form of consideration issue. The Comparable Transactions were considered an exhaustive list of transactions based on the aforesaid criteria.

We note that although the business activities, financial positions, business performances, size of the offering, intended use of proceeds, the relationship between the respective subscriber(s) and the issuer and future prospects of the issuers engaging in the Comparable Transactions vary from company to company, we consider that the terms of the Comparable Transactions were determined under similar market conditions and sentiments as the New Convertible Notes and the Comparable Transactions serve as a reasonable proxy of the recent trend in convertible bonds/notes issues in the Hong Kong market. Furthermore, as there were 12 Comparable Transactions in the 12-month review period, representing a reasonable number for our comparison purpose, we consider the selection of the 12-month review period appropriate for our analysis and the Comparable Transactions are a fair and representative sample.

The Comparable Transactions are set out in the table below:

Date of announcement (2019)	Name of company	Stock code	Principal amount of the convertible bonds/notes (HK\$ million)	Maturity (years)	Interest rate (per annum)	Premium/(discount) of conversion price over/(to) the share price of		Redemption on maturity	Connected Transaction	Use of proceeds
						last trading day prior to the publication of the relevant announcement	last 5 trading days prior to the publication of the relevant announcement			
16-Jan	Hospital Corporation of China Limited	3869	800.00	5	0.00%	13.12	12.17	130.00% <i>Note 1</i>	No	For potential and future acquisitions
24-Jan	Shifang Holding Limited	1831	250.00	3	3.00%	9.09	4.53	100.00% <i>Note 2</i>	Yes	For repayment of loan, redemption of promissory notes and payment of general expenses
20-May	Silver Grant International Industries Limited	171	200.00	3	7.00%	38.69	40.36	116.50%	Yes	Repayment of short-term debts, for expanding business and general working capital
23-May	China Logistics Property Holdings Co., Ltd	1589	1,109.00	5	6.95%	10.00	8.21	100.00%	Yes	Repayment of existing indebtedness and other general corporate purposes
17-Jun	Eminence Enterprises Limited	616	70.00	5	3.00%	0.00	0.00	100.00%	Yes	For financing the acquisition of remaining units of a property project

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Date of announcement (2019)	Name of company	Stock code	Principal amount of the convertible bonds/notes (HK\$ million)	Maturity (years)	Interest rate (per annum)	Premium/(discount) of conversion price over/(to) the share price of		Redemption on maturity	Connected Transaction	Use of proceeds
						last trading day prior to the publication of the relevant announcement	last 5 trading days prior to the publication of the relevant announcement			
1-Jul	Value Convergence Holdings Limited	821	99.00	3	0.00%	(18.18)	(16.67)	100.00%	Yes	Expansion and development of businesses of the group
10-Jul	Ko Yo Chemical (Group) Limited	827	987.00	5	5.00%	(19.89)	(19.70)	100.00%	Yes	Establishment of new production lines and as general working capital
19-Jul	China Ocean Industry Group Limited	651	110.00	3	10.00%	0.00	3.90	100.00%	No	Repayment of loans and as working capital
31-Jul	Summi (Group) Holdings Limited	756	74.00	3	2.28%	16.88	18.35	100.00%	Yes	Repayment of loans
23-Aug	Regent Pacific Group Limited	575	50.31	3	4.00%	(15.00)	(15.47)	100.00%	Yes	For settlement of litigation, completing ongoing clinical study of its product, pursuing identified acquisition and investment opportunities, as general corporate purposes and for working capital
17-Sep	Asia Energy Logistics Group Limited	351	60.00	3	2.50%	5.63	5.63	100.00%	No	For loan repayments, daily operation and business development and settlement of fees
24-Sep	Asia Television Holdings Limited	707	400.00	3	6.00%	85.19	72.41	100.00%	Yes	Repayment of borrowings and for general working capital
			Average		4.14%	10.46%	9.48%	103.88%		
			Median		3.50%	7.36%	5.08%	100.00%		
			Maximum		10.00%	85.19%	72.41%	130.00%		
			Minimum		0.00%	(19.89)%	(19.70)%	100.00%		
	The Company - The New Convertible Notes			5	3.00%	11.10	15.40	100.00%		

Sources: Website of the Stock Exchange

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Note 1: Pursuant to the amendment announcement dated 16 January 2019 and based on the initial announcement at 21 December 2018, redemption amount is equal to principal amount of outstanding convertible bonds plus principal amount of outstanding convertible bonds x 6% x 5.

Note 2: Based on the announcement dated 24 January 2019, the redemption price for the convertible bonds is equal to 100% of the principal plus the convertible bonds interest which is 3% per annum calculated from the date of issue up to and including the actual redemption date.

As set out in the table above, the interest rate of the New Convertible Notes of 3.00% per annum is lower than the average of 4.14% and is lower than the median of 3.50% of the interest rates of the Comparable Transactions. Furthermore, if we were to isolate the Comparable Transactions involving only subscribers who are connected persons to the issuers, we note that the interest rate of the New Convertible Notes of 3.00% per annum is lower than both the average of 4.14% and the median of 4.00% of the interest rates of the Comparable Transactions involving only connected persons.

The premium of the initial Conversion Price over the closing price of the Shares on the Last Trading Day for the New Convertible Notes is around 11.10%, which is higher than the average of 10.46% premium of that of the Comparable Transactions. When compared to a 5-day average share price prior to the entering into the relevant issue of the convertible notes/bonds, the premium of the initial Conversion Price over the 5-day average closing price of the Shares for the New Convertible Notes of approximately 15.40% is higher than the average of 9.48% premium of those of the Comparable Transactions. Similarly, we also looked into the Comparable Transactions involving connected persons and noted that the premiums represented by the initial Conversion Price over (i) the closing price on the Last Trading Day of the Shares for the New Convertible Notes of approximately 11.10% is comparable to the average of approximately 11.86%, but higher than the median of approximately 9.09%, derived from Comparable Transactions involving connected persons; and (ii) the 5-day average closing price of the Shares for the New Convertible Notes of approximately 15.40% are higher than both the average of approximately 10.22% and the median of approximately 4.53% derived from the Comparable Transactions involving connected persons.

Separately, we have noted that amongst the Comparable Transactions, 2 of them, namely China Ocean Industry Group Limited (stock code: 651) and Asia Energy Logistics Group Limited (stock code: 351) had reported net losses as well as net liabilities at the time of their relevant announcements, which is similar to the circumstances of the Company. In this respect, we have compared and we noted the premium as represented by the initial Conversion Price over the closing price of the Shares as at the Last Trading Day and premium as represented by the initial Conversion Price over the average closing price of the Shares over the last 5 trading days up to and including the Last Trading Day, which were 11.10% and 15.40% respectively were higher than the respective premiums shown for these two Comparable Transactions for the same two subject periods.

At maturity, the New Convertible Notes will be redeemed at 100.00% of the outstanding principal amounts. We consider this as in line with the results from our Comparable Transactions analysis where upon maturity, the relevant convertible bonds/notes are redeemed at between 100.00% to 130.00% outstanding principal value.

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Based on our analyses in section headed “4. *Principal terms of the New Convertible Notes*” and our analysis in the section headed “2. *Reasons for and use of proceeds for the Subscriptions*”, and as shown by the Comparable Transactions analysis in this section, we are of the view that the terms of the Subscriptions are on normal commercial terms and fair and reasonable, in line with market practice and the transactions contemplated under the Subscription Agreements are in the interests of the Company and the Shareholders as a whole.

6. Financial effects of the Subscriptions on the Group

(a) *Net asset value*

As advised by the management of the Company and based on the accounting policies of the Group, the New Convertible Notes to be issued by the Company will contain both debt and conversion option components, both being accounted for as liabilities, and will be classified separately on initial recognition. As the subscription prices of the New Convertible Notes will be used by the Company for refinancing the 2014 Notes in full, it is anticipated that, save for the relevant transaction costs, the impact of the Subscriptions on the net asset value of the Company will not be significant upon completion of the Subscriptions.

(b) *Earnings*

As advised by the management of the Company and based on the accounting policies of the Group, the debt component of the New Convertible Notes will be carried at amortised cost using the effective interest method in subsequent periods. The effective interest expenses of the New Convertible Notes will be charged to the consolidated statement of profit or loss of the Group subsequent to the issue of the New Convertible Notes. The finance costs which are calculated based on effective interest of the New Convertible Notes will continuously be incurred by the Group until conversion and/or redemption of the New Convertible Notes in full. In addition, the conversion option (i.e. derivative) component of the New Convertible Notes will be measured at fair value with changes in fair value recognised in the consolidated statement of profit and loss of the Group.

Although the finance costs and the changes in fair value of the conversion option component of the New Convertible Notes may create negative impact on the future earnings of the Group, the issue of the New Convertible Notes is considered necessary in order to allow the Group to facilitate its mining operation in the Khushuut Coking Coal Project and the refinancing requirement of the Group as discussed in section headed “2. *Reasons for and use of proceeds of the Subscriptions*” above in this letter.

(c) *Working capital*

As at 30 September 2019, the Group had cash and cash equivalents balance of approximately HK\$102.3 million and net current liabilities of approximately HK\$5,188.0 million. Upon completion of the Subscriptions, the subscription price of the Convertible Notes (being a maximum of approximately HK\$3,456.8 million based on the total outstanding principal amount and accrued interest owing under the existing convertible notes calculated up

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to the Long Stop Date) will be used for the settlement of all the existing convertible notes of the Company, all of which are current liabilities. As the duration of the Convertible Notes will be 5 years, the New Convertible Notes will be initially classified as non-current liabilities. This effectively refinances the aforesaid current liabilities with non-current liabilities.

In addition, the total interests to be charged under the New Convertible Notes, as compared to the total accrued interests of approximately HK\$445.1 million of the Existing GI Note and the Existing CTF Note for the 5-year term, is estimated to be in total of approximately HK\$518.5 million for the 5-year term, and will be payable in arrears only on the maturity date of the New Convertible Notes unless previously redeemed, repaid or converted into Shares, (as the case may be), which will substantially ease the working capital pressure of the Group in terms of finance costs during the period before the maturity of the New Convertible Notes. As detailed in the section headed “*Reasons for the Subscriptions and use of proceeds*” in the letter from the Board in the Circular, although the Group was loss-making over the past two financial years ended 31 March 2018 and 2019, the Group was able to generate operating cash inflow before changes in working capital of approximately HK\$207.7 million and HK\$226.2 million for the financial years ended 31 March 2018 and 2019, respectively, and the net cash generated from operating activities of the Group during the same period was approximately HK\$115.9 million and HK\$113.0 million, respectively. It was further stated that, based on the financial records of the Group for the two financial years ended 31 March 2018 and 2019 and six months ended 30 September 2019, the required average monthly working capital of the mining operation of the Group was approximately HK\$26.8 million, HK\$36.7 million and HK\$72.5 million respectively which was principally financed by the cashflow generated from the mining operation and internal resources of the Group. As such and as disclosed in the letter from the Board in the Circular, based on information available to the Group as at the Latest Practicable Date, it is not expected to have material adverse change in the maximum working capital requirement of the mining operation of the Group in the coming twelve months and that the average monthly working capital requirements of the mining operation of the Group in the coming twelve months is estimated to be approximately HK\$64.4 million. Assuming there would be no material adverse changes in the mining operation of the Group during the forecast period as compared to last financial year, the capital requirements of the mining operation of the Group in the coming twelve months can be fully satisfied by its internal generated cashflow and if necessary, to be supplemented by the loan financings currently available to the Group (including a standby revolving facility provided by Mr. Lo to the Company with a facility amount of HK\$1,900 million of which over HK\$900 million was undrawn as at the Latest Practicable Date).

Based on all the above, the working capital position of the Group are expected to be improved upon and immediately following completion of the Subscriptions.

As disclosed in the section headed “*Reasons for the Subscriptions and use of proceeds*” in the letter from the Board in this Circular, based on preliminary discussions with the auditors of the Group, the Company believes that the Disclaimer will be removed provided that the Subscriptions will be materialised before the publication of the annual results for the financial year ending 31 March 2020. In this regard, we have discussed with the Management and understand that the Company’s belief is based on factors including its preliminary discussion

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with auditors, and the understanding that the Disclaimer was issued solely as a result of the going concern in view of the 2014 Notes and as such, given that the auditors issued a clean report in financial year ended 31 March 2015 after the successful refinancing of the 2014 Notes and that the Group was able to generate operating cash inflow for FY2018 and FY2019, representing significant improvement as compared to the net operating cash outflow for the financial year ended 31 March 2014, being the latest full financial year before the issuance of 2014 Notes, the removal of the Disclaimer is also expected for the financial year ending 31 March 2020. In view of the aforesaid factors considered by the Management, and the expected improved financial and working capital position of the Group upon completion of the Subscriptions, we consider the Company's belief on the Disclaimer being removed provided that the Subscriptions will be materialized before the publication of the annual results for the financial year ending 31 March 2020, is not impossible.

7. Potential dilution effect on the shareholdings of the Independent Shareholders

Assuming that there is no other change to the issued share capital and shareholding structure of the Company from the Latest Practicable Date up to the date when all the New Convertible Notes are converted, the full conversion of the New Convertible Notes will result in an allotment and issue of no more than approximately 3,312,801,878 Conversion Shares, which represents approximately 1,760.9% of the total existing issued share capital of the Company at the Latest Practicable Date (taking into account the effect of the Capital Reorganisation) and approximately 94.6% of the entire issued share capital of the Company as enlarged by the issue of the Conversion Shares (taking into account the effect of the Capital Reorganisation).

Dilution effect on the existing public Shareholders is approximately 71.5% (from approximately 75.6% to approximately 4.1%). In light of (i) the low level of cash holdings of the Group of approximately HK\$102.3 million as at 30 September 2019; (ii) the pressing need to refinance the 2014 Notes of the Group which have fallen due; and (iii) the other forms of equity financing are limited, we consider the aforesaid dilution effect commercially acceptable.

DISCUSSION AND ANALYSIS

Operation of the Khushuut Coking Coal Project, being the principal project of the Group, has shown gradual improvement with increased production and sales over the years, which has contributed to the reduction in net losses of the Group in the recent years. Despite of such encouraging development, the Group has still remained loss-making over the years and has been in net liabilities position since 2015. In view of the substantial amount of the existing liabilities of the Group, majority of it being the 2014 Notes, have fallen due and the low level of cash and bank balance of the Group as at 30 September 2019, we agree that a refinancing arrangement is necessary for the Group to refinance the 2014 Notes and to retain sufficient general working capital for the normal operation of the Khushuut Coking Coal Project.

The terms of the New Convertible Notes, including but not limited to, the Conversion Price, maturity, repurchase, redemption and interest rate, are considered to be reasonable and acceptable to the Company. In particular, the interest rate of the Convertible Notes compares favourably with the average interest rate of

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the Comparable Transactions and the comparison of the initial Conversion Price of the New Convertible Notes against the prevailing closing price of the Shares is also considered in line with that of the Comparable Transactions.

Though there could be a possible maximum dilution effect on the existing public Shareholders of approximately 71.5% (from approximately 75.6% to approximately 4.1%) resulting from a full conversion of the New Convertible Notes, we consider the aforesaid dilution effect commercially acceptable in light of (i) the low level of cash holdings of the Group; (ii) the pressing need to refinance the 2014 Notes which have already fallen due; (iii) other forms of equity financing being limited; and (iv) that the Subscriptions will significantly enhance the working capital position of the Group upon completion of the Subscriptions and is expected by the Company to remove the Disclaimer should completion of the Subscriptions be taken place before the publication of the annual results for the financial year ending 31 March 2020.

OPINION AND RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the Subscriptions, though not entered into in the ordinary and usual course of business of the Group, are on normal commercial terms, and the terms of the Subscription Agreements and the transactions contemplated thereunder are fair and reasonable as far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution approving the Subscriptions at the SGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley Capital Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 17 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters, the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

(a) Share Capital

Assuming there is no other change in the authorised and issued share capital of the Company since the Latest Practicable Date, the authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the Capital Reorganisation becoming effective; and (iii) immediately upon full conversion of the New Convertible Notes (based on the maximum respective principal amounts thereof to be issued and the accrued interest thereon) at the initial Conversion Price are as follows:

(i) As at the Latest Practicable Date

Authorised capital:

HK\$

<u>15,000,000,000</u>	Existing Shares of HK\$0.02 each	<u>300,000,000.00</u>
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Issued and fully paid or credited as fully paid:

<u>1,881,258,499</u>	Existing Shares of HK\$0.02 each as at the Latest Practicable Date	<u>37,625,169.98</u>
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(ii) Immediately upon the Capital Reorganisation becoming effective

Authorised capital:

HK\$

<u>15,000,000,000</u>	New Shares of HK\$0.02 each	<u>300,000,000.00</u>
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Issued and fully paid or credited as fully paid:

<u>188,125,849</u>	New Shares of HK\$0.02 each	<u>3,762,516.98</u>
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(iii) *Immediately upon full conversion of the New Convertible Notes (based on the maximum respective principal amounts thereof to be issued and the accrued interest thereon) at the initial Conversion Price*

Authorised capital:

HK\$

<u>15,000,000,000</u>	New Shares of HK\$0.02 each	<u>300,000,000.00</u>
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Issued and fully paid or credited as fully paid:

188,125,849	New Shares of HK\$0.02 each	3,762,516.98
605,493,743	New GI Conversion Shares to be allotted and issued upon full conversion of the New GI Convertible Note	12,109,874.86
<u>2,707,308,135</u>	New CTF Conversion Shares to be allotted and issued upon full conversion of the New CTF Convertible Note	<u>54,146,162.70</u>
<u>3,500,927,727</u>	New Shares of HK\$0.02 each	<u>70,018,554.54</u>

1,881,258,499 Existing Shares have been issued since 31 March 2019 (being the end of last financial year of the Company) up to the Latest Practicable Date. All the Existing Shares currently in issue rank *pari passu* in all respects with each other, including in particular, as to dividends, voting rights and return of capital.

The Conversion Shares to be issued upon exercise of the Conversion Rights will rank *pari passu* in all respects among themselves and with all Shares in issue as at the date of allotment and issue of the Conversion Shares, including in particular, as to voting rights, return on capital and the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Conversion Shares. The Conversion Shares will be listed and traded on the Stock Exchange.

(b) Share Options

Details of the Outstanding Share Options as at the Latest Practicable Date were as follows:

	Exercise price per Share HK\$	Date of grant	Exercisable period	Number of underlying Shares subject to outstanding Share Options interested
Directors				
Mr. Lo	0.251	9 September 2015	9 September 2015 to 8 September 2020	17,000,000
	0.226	1 September 2017	1 September 2017 to 31 August 2022	18,000,000
Ms. Yvette Ong	0.251	9 September 2015	9 September 2015 to 8 September 2020	5,000,000
	0.226	1 September 2017	1 September 2017 to 31 August 2022	10,000,000
Mr. Lo, Rex Cze Kei	0.226	1 September 2017	1 September 2017 to 31 August 2022	15,000,000
Mr. To Hin Tsun, Gerald	0.251	9 September 2015	9 September 2015 to 8 September 2020	3,000,000
	0.226	1 September 2017	1 September 2017 to 31 August 2022	5,000,000
Mr. Tsui Hing Chuen, William <i>JP</i>	0.251	9 September 2015	9 September 2015 to 8 September 2020	3,000,000
	0.226	1 September 2017	1 September 2017 to 31 August 2022	5,000,000
Mr. Lau Wai Piu	0.251	9 September 2015	9 September 2015 to 8 September 2020	3,000,000
	0.226	1 September 2017	1 September 2017 to 31 August 2022	5,000,000
Mr. Lee Kee Wai, Frank	0.226	1 September 2017	1 September 2017 to 31 August 2022	5,000,000

	Exercise price per Share HK\$	Date of grant	Exercisable period	Number of underlying Shares subject to outstanding Share Options interested
Employees in aggregate (including a director of certain subsidiaries)	0.251	9 September 2015	9 September 2015 to 8 September 2020	16,000,000
	0.226	1 September 2017	1 September 2017 to 31 August 2022	80,000,000

Save as disclosed above, the Company had no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares and the underlying Shares

Name of Directors	Capacity	Number of issued Shares interested or deemed to be interested	Number of underlying Shares interested or deemed to be interested	Total	Approximate percentage of the existing issued share capital of the Company
Mr. Lo	Beneficial owner	1,240,000 <i>(Note 1)</i>	35,000,000 <i>(Note 1)</i>	6,393,134,505	339.83%
	Interest of a controlled corporation	301,519,575 <i>(Note 1)</i>	6,054,937,430 <i>(Note 2)</i>		
	Interest of a spouse	437,500 <i>(Note 1)</i>	-		
Ms. Yvette Ong	Beneficial owner	272,500	15,000,000 <i>(Note 3)</i>	15,272,500	0.81%
Mr. Lo, Rex Cze Kei	Beneficial owner	-	15,000,000 <i>(Note 3)</i>	15,000,000	0.80%
Mr. To Hin Tsun, Gerald	Beneficial owner	1,350,000	8,000,000 <i>(Note 3)</i>	9,350,000	0.50%
Mr. Tsui Hing Chuen, William JP	Beneficial owner	125,000	8,000,000 <i>(Note 3)</i>	8,125,000	0.43%
Mr. Lau Wai Piu	Beneficial owner	50,300	8,000,000 <i>(Note 3)</i>	8,050,300	0.43%
Mr. Lee Kee Wai, Frank	Beneficial owner	-	5,000,000 <i>(Note 3)</i>	5,000,000	0.27%

Notes:

- 1,240,000 Shares represent interest of Mr. Lo on an individual basis, while 301,519,575 Shares represent interest of the GI Subscriber. The balance of 437,500 Shares represent interest of Ms. Ku Ming Mei, Rouisa ("Mrs. Lo"), the spouse of Mr. Lo. Accordingly, Mr. Lo is deemed to be interested in the Shares in which the GI Subscriber and Mrs. Lo are interested by virtue of the SFO. 35,000,000 underlying Shares represent the new Shares to be issued to Mr. Lo upon the exercise of the share options which were granted to Mr. Lo on 9 September 2015 and 1 September 2017 pursuant to the share option scheme of the Company.

2. The 6,054,937,430 underlying Shares represent the new Existing Shares to be issued by the Company to the GI Subscriber upon full conversion of the principal amount of the New GI Convertible Note of HK\$631,819,558 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing GI Note calculated up to the Long Stop Date) and the accrued interest thereon of HK\$94,772,933.70 (calculated from the date of issue of the New GI Convertible Note until its maturity assuming the date of issuance of the New GI Convertible Note is the Long Stop Date) at the initial Conversion Price. Details of the GI Subscription Agreement and the New GI Convertible Note are set out in the section headed "Letter from the Board" in this circular.

The GI Subscriber is wholly owned by Mr. Lo. Accordingly, Mr. Lo is deemed to be interested in the underlying Shares in which the GI Subscriber is interested by virtue of the SFO.

3. These underlying Shares represent the new Shares to be issued to the respective Directors upon the exercise of the share options which were granted to the respective Directors on 9 September 2015 and 1 September 2017 pursuant to the share option scheme of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company were interested or were deemed to have interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed below, as at the Latest Practicable Date, none of the Directors was a director or an employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company which had such disclosable interest or short position	Position within such company
Mr. Lo	The GI Subscriber	Director

4. LITIGATION

As at the Latest Practicable Date, apart from the dispute with the former mining contractor of the Khushunt Coal Mine, Thiess Mongolia LLC (“Thiess”), neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and so far as the Directors were aware, no litigation, arbitration or claim of material importance was pending or threatened by or against any member of the Group or to which the Company or any of its subsidiaries was, or might become, a party.

Thiess issued two writs of summons against the Company at the High Court of Hong Kong on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK\$93.7 million. In May 2015, Thiess applied to the 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. Accordingly, the total claim amount was approximately HK\$198.9 million. The two actions were subsequently consolidated and the claims were substantially reduced to US\$13.5 million (equivalent to approximately HK\$105.6 million), of which approximately HK\$50 million had been provided for in the unaudited condensed consolidated financial statements of the Company as at 30 September 2019. There have not been any substantial progress since the exchange of the supplemental witness statements in 2018. The parties to the actions have yet to agree on the list of issues to be addressed in the expert report.

5. SERVICE CONTRACTS

Mr. Lo entered into a service contract with the Company on 29 March 2019 for a fixed term of three years with effect from 1 April 2019.

As at the Latest Practicable Date, apart from the above, none of the Directors had any existing or proposed service contracts with any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. OTHER INTERESTS OF THE DIRECTORS

- (a) As at the Latest Practicable Date, there was no material contract entered into by the GI Subscriber and the CTF Subscriber in which any Director (excluding Mr. Lo) had a material personal interest.
- (b) As at the Latest Practicable Date, save as disclosed below, none of the Directors had any direct or indirect interest in any assets which have been, since 31 March 2019 (the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group:

The tenancy in respect of the head office and the principal place of business of the Company in Hong Kong was renewed on 8 May 2019. The Group has been leasing and using the subject premises since 2015. The new tenancy is for a term of two years commencing from 8 May 2019 and expiring on 7 May 2021 at a monthly rental of HK\$355,250 (exclusive of rates, government rent, management fees and all other outgoings).

The landlord is an investment holding company wholly and beneficially owned by Mr. Lo. As Mr. Lo is a connected person of the Company, the tenancy agreement constituted a connected transaction for the Company under Chapter 14A of the Listing Rules. For details, please refer to the announcements made by the Company on 8 May 2019 and 15 May 2019.

- (c) Save for the New GI Subscription Agreement, the RP Standstill Agreement, the GI Standstill Agreement and a standby revolving facility provided by Mr. Lo to the Company with a facility amount of HK\$1,900 million carrying interest at 3% above the prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited (of which approximately HK\$963.1 million had been drawn down and the accrued interest of approximately HK\$713.1 million was outstanding as at the Latest Practicable Date), none of the Directors is materially interested in any contract or arrangement which is significant in relation to the business of the Group subsisted at the Latest Practicable Date.

7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses where the directors of the Group were appointed as directors to represent the interests of the Company and/or the Group.

8. MATERIAL ADVERSE CHANGE

The Directors are of the opinion that, based on the information currently available to the Group as at the Latest Practicable Date, other than the increase in loss incurred for the six months ended 30 September 2019 as compared to the corresponding period in 2018 which was principally due to the impairment loss of property, plant and equipment, and intangible assets, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 March 2019, being the date to which the latest published audited financial statements of the Group were made up.

9. EXPERT AND CONSENT

The following is the qualification of the expert who has given advice or opinion contained in this circular:

Name	Qualifications
Somerley	a corporation licensed by the SFC to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Somerley did not have any shareholding in any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. As at the Latest Practicable Date, Somerley did not have any direct or indirect interest in any assets which have been, since 31 March 2019 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, had been entered into by the Group during the period commencing two years immediately preceding the date of the Announcement up to and including the Latest Practicable Date which are or may be material:

- (a) GI Subscription Agreement;
- (b) CTF Subscription Agreement;
- (c) GI Standstill Agreement;
- (d) CTF Standstill Agreement; and
- (e) RP Standstill Agreement.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9 : 00 a.m. to 5 : 00 p.m. (other than Saturdays, Sundays and public holidays) at the head office and principal place of business of the Company in Hong Kong at 17th Floor, 118 Connaught Road West, Hong Kong; and (ii) on the Company's website (www.mongolia-energy.com), from the date of this circular up to and including the date of the SGM:

- (a) the annual reports of the Company for the two financial years ended 31 March 2018 and 2019;
- (b) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- (d) the letter of advice from Somerley, the text of which is set out in the section headed "Letter from Somerley" in this circular;
- (e) the written consent referred to in the paragraph headed "Expert and consent" in this appendix;

- (f) the service contract referred to in the paragraph headed "Service contracts" in this appendix;
and
- (g) the material contracts referred to in the paragraph headed "Material contracts" in this appendix.

12. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Tang Chi Kei, CPA. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The English text of this circular and accompanying form of proxy shall prevail over their respective Chinese text in case of inconsistency.

NOTICE OF THE SGM

MEG

MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 276)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Mongolia Energy Corporation Limited (the “**Company**”) will be held at 22nd Floor, United Centre, 95 Queensway, Hong Kong on Friday, 7 February 2020 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions as a special resolution and an ordinary resolution of the Company:

SPECIAL RESOLUTION

1. “**THAT:-**

- (a) Subject to and conditional upon (i) The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the New Shares (as defined below) arising from the Capital Reorganisation (as defined below); (ii) the compliance by the Company with the relevant procedures and requirements under the laws of Bermuda to effect the Capital Reorganisation; and (iii) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation, with effect from 9:00 a.m. on the second business day immediately following the date on which this resolution is passed or such other time and/or date as the directors of the Company (the “**Directors**”) may determine:-
- (1) every ten (10) issued shares of HK\$0.02 each in the share capital of the Company be consolidated (the “**Share Consolidation**”) into one (1) share of HK\$0.20 (the “**Consolidated Share(s)**”);
 - (2) the total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation be rounded down to a whole number by cancelling any fraction in the issued share capital of the Company arising from the Share Consolidation;
 - (3) the par value of each then issued Consolidated Share be reduced from HK\$0.20 to HK\$0.02 (the “**New Share(s)**”) by cancelling the paid-up capital thereon to the extent of HK\$0.18 thereon (together with the reduction referred to in subparagraph (2) above, the “**Capital Reduction**”);
 - (4) the entire amount standing to the credit of the share premium account of the Company be cancelled (the “**Share Premium Reduction**”);

NOTICE OF THE SGM

- (5) the credit arising from the Capital Reduction and the Share Premium Reduction be transferred to the contributed surplus account of the Company (the “**Contributed Surplus Account**”) (such transfer together with the Share Consolidation, the Capital Reduction and the Share Premium Reduction, the “**Capital Reorganisation**”), and the entire amount standing to the credit of the Contributed Surplus Account be applied to set off against an equivalent amount of the accumulated losses of the Company and the Directors be hereby authorised to apply the balance in the Contributed Surplus Account (if any) in any manner permitted by the bye-laws of the Company and the laws of Bermuda, including, without limitation, applying any credit balance thereof to set off against the accumulated losses of the Company and paying dividends or making any other distribution out of the Contributed Surplus Account from time to time without further authorisation from the shareholders of the Company and all such actions in relation thereto be approved, ratified and confirmed; and
- (6) any one Director or, if the affixation of the common seal of the Company is required, any one Director and the company secretary of the Company or any two Directors or such other person (including a Director) or persons as the board of the Directors may appoint be hereby authorised for and on behalf of the Company to approve, sign, seal, execute, perfect and deliver all documents and to do all such acts, deeds and things which he/she/they may in his/her/their absolute discretion consider desirable, necessary or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Capital Reorganisation.”

ORDINARY RESOLUTION

2 “**THAT**

- (a) the entering into of the two subscription agreements both dated 28 November 2019 between the Company as issuer and (i) Golden Infinity Co., Ltd.; and (ii) Chow Tai Fook Nominee Limited (collectively the “**Subscribers**”) as subscribers respectively (the “**Subscription Agreements**”, copies of which have been produced to the Meeting and marked “A” and “B” respectively and signed by the Chairman of the Meeting for the purpose of identification) in relation to the issue by the Company to the Subscribers of the 3% convertible notes for a term of five (5) years from the date of issue (collectively the “**Notes**”) in the respective principal amounts equivalent to the respective aggregate outstanding amounts (including the principal amounts and any outstanding accrued interest up to date of completion of the Subscription Agreements) owing by the Company to the Subscribers under the existing notes issued by the Company to the Subscribers, which the holders of the Notes shall be entitled to convert all or any part thereof (comprising the outstanding principal amounts and any accrued but unpaid interest thereon) into ordinary shares of the Company (the “**Conversion Shares**”) at an initial conversion price of HK\$1.20 per Conversion Share (after the Capital Reorganisation (as defined in the special resolution numbered 1 set out in the notice convening the Meeting) takes effect) (subject to adjustments as provided in the Notes),

NOTICE OF THE SGM

and the performance of the respective transactions contemplated under the Subscription Agreements by the Company be hereby ratified, confirmed and approved (as appropriate) in all respects;

- (b) the creation and issue of the Notes by the Company upon and subject to the respective terms of the Subscription Agreements be hereby approved in all respects;
- (c) subject to and conditional upon the granting by The Stock Exchange of Hong Kong Limited of the listing of, and permission to deal in, the Conversion Shares, the allotment and issue of the Conversion Shares which may fall to be issued upon exercise of the conversion rights attaching to the Notes be hereby approved and the directors of the Company (the “**Directors**”) be hereby authorised to exercise all the powers of the Company to allot and issue the Conversion Shares pursuant to and in accordance with the respective terms of the Notes; and
- (d) any one Director or, if the affixation of the common seal of the Company is required, any one Director and the company secretary of the Company or any two Directors or such other person or persons as the board of the Directors may appoint be hereby authorised for and on behalf of the Company to approve, sign, seal, execute, perfect and deliver all documents and to do all such acts, deeds and things which he/she/they may in his/her/their absolute discretion consider desirable, necessary or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Subscription Agreements and the Notes and the respective transactions contemplated thereunder, including without limitation to the issue of the Notes, the allotment and issue of the Conversion Shares and the execution, amendment, supplement, delivery, submission and implementation of any further documents or agreements in connection therewith.”

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

Hong Kong, 7 January 2020

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

*Head office and principal place of
business in Hong Kong:*
17th Floor,
118 Connaught Road West
Hong Kong

NOTICE OF THE SGM

Notes:

1. Any member entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or, if he is a holder of more than one share, more proxies to attend and vote on his behalf. A proxy need not be a member of the Company but he must be present in person at the Meeting to represent the member. If more than one proxy is appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the Meeting is enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com. In order to be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power of attorney or authority, shall be delivered to the office of the Company's branch share registrar office in Hong Kong, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and delivery of a form of proxy will not preclude a member from attending and voting in person at the Meeting or any adjournment thereof and in such event, the form of proxy shall be deemed to be revoked.
3. In the case of joint holders of a share, if more than one of such joint holders be present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of such joint holding.
4. The resolutions proposed to be approved at the Meeting will be voted by way of poll.
5. For the purpose of ascertaining the members' right to attend and vote at the Meeting, the register of members of the Company will be closed from Wednesday, 5 February 2020 to Friday, 7 February 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Meeting, all completed transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar office 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 Tuesday, 4 February 2020.
6. As at the date of this notice, the board of Directors comprises seven Directors, of which Mr. Lo Lin Shing, Simon, Ms. Yvette Ong and Mr. Lo, Rex Cze Kei are executive Directors, Mr. To Hin Tsun, Gerald is a non-executive Director, and Mr. Tsui Hing Chuen, William *JP*, Mr. Lau Wai Piu and Mr. Lee Kee Wai, Frank are independent non-executive Directors.