MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

The board of directors (the "**Board**") of Mongolia Energy Corporation Limited (the "**Company**") announces the condensed consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 September 2021 (the "**Financial Period**") together with the comparative figures for the corresponding period in the previous year as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2021

	Notes	Six months ended 30 September 2021 HK$'000 (unaudited)	2020 HK$'000 (unaudited)
Revenue	3	**941,003**	268,869
Cost of sales		**(511,021)**	(169,373)
Gross profit		**429,982**	99,496
Other income	4	**3,693**	38,177
Other gains and losses	5	**(10,482)**	(8,797)
Administrative expenses		**(70,887)**	(73,121)
Changes in fair value on derivative component of convertible notes	13	**494,945**	(714,667)
Reversal of impairment loss (impairment loss) on property, plant and equipment		**195,933**	(82,485)
Reversal of impairment loss (impairment loss) on intangible assets		**26,148**	(9,142)
Reversal of impairment loss (impairment loss) on right-of-use assets		**221**	(40)
(Impairment loss) reversal of impairment loss on financial assets		**(535)**	56
Finance costs	6	**(293,112)**	(252,567)
Profit (loss) before taxation	8	**775,906**	(1,003,090)
Income tax expense	7	**(23,198)**	(4,603)
Profit (loss) for the period attributable to owners of the Company		**752,708**	(1,007,693)
Earnings (loss) per share attributable to owners of the Company	9		
– basic and diluted earnings (loss) per share *(HK$)*		**4.00**	(5.36)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2021

	Six months ended 30 September	
	2021	2020
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit (loss) for the period	**752,708**	(1,007,693)
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translating foreign operations	**3,714**	774
Total comprehensive income (expense) for the period attributable to owners of the Company	**756,422**	(1,006,919)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

	Notes	**30 September 2021 HK$'000 (unaudited)**	31 March 2021 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*10*	**2,610,926**	2,394,590
Right-of-use assets		**12,327**	8,055
Intangible assets	*10*	**299,396**	279,145
Exploration and evaluation assets		**1,262**	1,262
Interests in associates		**–**	–
Other asset		**1,150**	1,150
Deferred tax asset		**63**	5,647
		2,925,124	2,689,849
Current assets			
Inventories		**235,588**	208,357
Trade and bills receivables	*11*	**345,340**	274,369
Other receivables, prepayments and deposits		**198,485**	155,913
Prepaid taxation		**813**	1,412
Financial assets at fair value through profit or loss ("**FVTPL**")		**40,178**	50,752
Cash and cash equivalents		**53,067**	57,577
		873,471	748,380
Current liabilities			
Trade payables	*12*	**157,939**	173,861
Other payables and accruals		**97,823**	99,213
Contract liabilities		**83,041**	2,823
Tax liabilities		**2,399**	39,877
Advances from a Director		**1,655,520**	1,811,276
Lease liabilities		**6,073**	2,939
Deferred income		**1,681**	1,648
		2,004,476	2,131,637
Net current liabilities		**(1,131,005)**	(1,383,257)
Total assets less current liabilities		**1,794,119**	1,306,592

	Notes	30 September 2021 HK$'000 (unaudited)	31 March 2021 HK$'000 (audited)
Non-current liabilities			
Convertible notes	*13(a)*	**3,258,824**	3,564,399
Loan note	*13(b)*	**350,343**	316,613
Deferred income		**4,733**	5,465
Deferred tax liabilities		**28,934**	26,216
Lease liabilities		**3,300**	2,336
		3,646,134	3,915,029
Net liabilities		**(1,852,015)**	(2,608,437)
Financed by:			
Capital and reserves			
Share capital		**3,763**	3,763
Reserves		**(1,855,778)**	(2,612,200)
Capital deficiencies attributable to owners of the Company		**(1,852,015)**	(2,608,437)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In preparing the condensed consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration to the future liquidity of the Group. The Directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than 12 months from 30 September 2021. The cash flows projections have been determined using estimation of future cash flows to be generated from the Group's operating activities and its working capital needs. Also, Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and being the Chairman and Director of the Company, has provided facilities amounting to HK$1,900.0 million by way of advances to the Group. As at 30 September 2021, advances from a Director of HK$1,655.5 million comprised principal amount and accrued interest of HK$963.1 million and HK$692.4 million respectively. Excluding the accrued interest of HK$692.4 million, the balance of the unutilised facilities of HK$936.9 million remains valid until 31 March 2023 and Mr. Lo does not intend to demand repayment of the principal amount of the loan and the accrued interest until the Company has sufficient cash to make repayment.

While recognising that the Group had net liabilities of approximately HK$1,852.0 million and had net current liabilities of approximately HK$1,131.0 million at 30 September 2021, the Directors are of the opinion that, taking into account of the finance from Mr. Lo and the internally generated funds, the Group will be able to meet its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2021 are the same as those applied in the preparation of the Group's annual financial statements for the year ended 31 March 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 April 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 16	COVID-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39 HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial position and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts and accounting policies on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform – Phase 2"

The amendments provide a practical expedient to account for the changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform by updating the effective interest rate, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

The Groups had advances from a Director denominated in Hong Kong dollars on the Hong Kong Interbank Offered Rate. The amendments have had no impact on the condensed consolidated financial statements as none of the above advances has been transitioned to the relevant replacement rates during the interim period. The impacts on application of the amendments, if any, including additional disclosures, will be reflected in the Groups' consolidated financial statements for the year ending 31 March 2022.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements, for the year ending 31 March 2022.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in mining, processing and sale of coal. Revenue represents income arising from the sale of coal to external customers located in the People's Republic of China (the "**PRC**") and Mongolia, and is recognised at a point in time when coals are delivered and accepted by the customers.

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

Segment revenue and result

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

For the six months ended 30 September 2021

	Coal mining *HK$'000*	**Total** *HK$'000*
Segment revenue	**941,003**	**941,003**
Segment profit	**603,234**	**603,234**
Unallocated expenses *(Note)*		**(21,131)**
Other gains and losses		**(8,110)**
Changes in fair value on derivative component of convertible notes		**494,945**
Finance costs		**(293,032)**
Profit before taxation		**775,906**

For the six months ended 30 September 2020

	Coal mining *HK$'000*	Total *HK$'000*
Segment revenue	268,869	268,869
Segment loss	(7,008)	(7,008)
Unallocated expenses *(Note)*		(21,428)
Other income		1,824
Other gains and losses		(9,314)
Changes in fair value on derivative component of convertible notes		(714,667)
Finance costs		(252,497)
Loss before taxation		(1,003,090)

Note:

Unallocated expenses mainly included staff costs for corporate office, office rental and legal and professional fees (2020: staff costs for corporate office, office rental and legal and professional fees).

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

	30 September 2021	31 March 2021
	HK$'000	*HK$'000*
Coal mining	**3,715,979**	3,355,777

4. OTHER INCOME

	Six months ended 30 September	
	2021	2020
	HK$'000	*HK$'000*
Government grant *(Note (a))*	**1,217**	3,965
Interest income	**108**	157
Sundry income *(Note (b))*	**2,368**	34,055
	3,693	38,177

Notes:

(a) *During the period ended 30 September 2021 and 2020, the grant received represents COVID-19-related grants provided by governments in Hong Kong, Mongolia and the PRC to retain employees who may otherwise be made redundant and to support businesses affected by COVID-19 respectively. The grants are unconditional and granted on a discretionary basis to the Group during both periods.*

(b) *During the period ended 30 September 2020, a subsidiary of the Group entered into a settlement agreement with an ex-exploration contractor in respect of the prepayment to be refunded in RMB30,000,000. The ex-exploration contractor has settled HK$25,300,000 (equivalent to RMB22,500,000) in cash during the period.*

5. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2021	2020
	HK$'000	*HK$'000*
Changes in fair value on financial assets at FVTPL	**(10,574)**	(9,304)
Gain (loss) on disposal of property, plant and equipment	**1**	(7)
Net exchange gains	**91**	514
	(10,482)	(8,797)

6. FINANCE COSTS

	Six months ended 30 September	
	2021	2020
	HK$'000	*HK$'000*
Interest on advances from a Director	**69,710**	69,320
Interest on lease liabilities	**302**	216
Effective interest expense on convertible notes *(Note 13(a))*	**189,370**	155,468
Effective interest expense on loan note *(Note 13(b))*	**33,730**	27,563
	293,112	252,567

7. INCOME TAX EXPENSE

	Six months ended 30 September	
	2021	2020
	HK$'000	*HK$'000*
Current tax:		
Mongolian corporate income tax	**14,675**	7,975
PRC Enterprise Income Tax ("**EIT**")	**23,632**	–
(Over) under provision in prior periods:		
Mongolian corporate income tax	**(25,087)**	–
PRC EIT	**1,684**	80
Deferred taxation	**8,294**	(3,452)
	23,198	4,603

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

Under the Law of the PRC on EIT (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% on the estimated assessable profits (if any) for both periods. One of the Group's subsidiaries, 新疆蒙科能源科技有限公司, is entitled to enjoy a preferential income tax rate of 15%, and will continue to benefit from this preferential income tax policy until 31 December 2030 under the "Tax incentives of Western Development Policy".

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

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

8. PROFIT (LOSS) BEFORE TAXATION

	Six months ended 30 September	
	2021	2020
	HK$'000	*HK$'000*
Profit (loss) before taxation has been arrived at after charging (crediting):		
Employee benefit expenses, including Directors' emoluments (net of reimbursement from a related party)	**64,206**	48,305
Less: employee benefit expenses capitalised in inventories	**(28,695)**	(9,930)
	35,511	38,375
Depreciation of property, plant and equipment	**31,459**	15,462
Depreciation of right-of-use assets	**3,183**	3,432
Amortisation of intangible assets	**6,903**	3,681

9. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 September	
	2021	2020
	HK$'000	*HK$'000*
Profit (loss) attributable to owners of the Company, as used in the calculation of basic and diluted earnings (loss) per share	**752,708**	(1,007,693)

	Six months ended 30 September	
	2021	2020
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share *(Note (a) and (b))*	**188,126**	188,126

Notes:

(a) *The computation of diluted earnings per share for the six months ended 30 September 2021 did not assume the exercise of share options or the conversion of the Company's outstanding convertible notes since the adjusted exercise price of the share options or the conversion price of the Company's outstanding convertible notes was greater than the average market price of the Company's shares during the outstanding period in 2021.*

(b) *The computation of diluted loss per share for the six months ended 30 September 2020 did not assume the exercise of share options or the conversion of the Company's outstanding convertible notes since assuming the exercise of the share options or the conversion of the convertible notes would result in a decrease in loss per share.*

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, Plant and Equipment

During the six months ended 30 September 2021, the Group spent approximately HK$25,653,000 (2020: HK$63,000), HK$1,548,000 (2020: HK$44,000), HK$Nil (2020: HK$30,000), HK$349,000 (2020: HK$117,000), HK$276,000 (2020: HK$15,000), HK$6,522,000 (2020: HK$1,606,000) and HK$12,986,000 (2020: HK$201,000) on mining structures, construction in progress, leasehold improvements, computer equipment, furniture, fixtures and office equipment, plant, machinery and other equipment and motor vehicles respectively.

Intangible Assets

The intangible assets consist of software and exclusive right of use of a paved road.

There were no significant capital expenditures spent on intangible assets for either periods.

Recoverable Amount Assessment on Khushuut Related Assets

At the end of the reporting period, the Group engaged a qualified professional valuer (the "**Independent Valuer**"), who is not connected with the Group, to determine the recoverable amount of its property, plant and equipment, intangible assets and right-of-use assets related to the Khushuut mine operations (collectively referred to as "**Khushuut Related Assets**"). For the purposes of recoverable amount assessment to assess whether there have been reversal or further impairment, the Khushuut Related Assets are treated as a cash generating unit, which represents the Group's coking coal mining operation in Western Mongolia. The recoverable amount of the Khushuut Related Assets has been determined based on a value-in-use calculation, using discounted cash flow analysis. Key assumptions used in the calculation include the predicted average growth rate of the coking coal price, discount rate and estimated timeline for commercial coal production.

The Directors instructed the Independent Valuer to use the information and assumptions provided by the management, including the predicted average growth rate of the coking coal price for the forthcoming four-year period, cost structure and production capacity of the Khushuut Related Assets. According to the recoverable amount assessment, reversal of impairment loss amounting to HK$222,302,000 (2020: impairment loss of HK$91,667,000) was recognised in the condensed consolidated statement of profit or loss in the current period against the respective assets on a pro-rata basis with reference to their carrying values.

Impairment assessment

During the period ended 30 September 2021, the management of the Group concluded there was indication for reversal of impairment and conducted impairment assessment on recoverable amounts of certain property, plant and equipment, right-of-use assets and intangible assets with finite useful life with carrying amounts of HK$2,397,385,000, HK$648,000 and HK$272,685,000 respectively. The Group estimates the recoverable amount of the cash-generating unit ("**CGU**") of mining segment to which the asset belongs when it is not possible to estimate the recoverable amount individually, including allocation of corporate assets when reasonable and consistent basis can be established.

The recoverable amount of CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group covering the following 10 years with a pre-tax discount rate in 21.15% as at 30 September 2021 (31 March 2021: 21.06%). The annual growth rate of the coking coal price used varies from –19.81% to 4.25% (31 March 2021: -0.49% to 13.29%), which is based on the industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry. The cash flows beyond the four-year period are extrapolated using 1.99% growth rate (31 March 2021: 1.99%). Another key assumption for the value in use calculated is the estimated timeline for commercial coal products, which is determined based on the CGUs' past performance and management expectations for the market development. The growth rates and discount rate have been reassessed as at 30 September 2021 taking into consideration higher degree of estimation uncertainties in the current period due to uncertainty on how the COVID-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's operations.

Based on the result of the assessment, management of the Group determined that the recoverable amount of the CGU is higher than the carrying amount. The reversal of impairment amount has been allocated to each category of property, plant and equipment, right-of-use assets and intangible assets with finite useful lives such that the carrying amount of each category of asset is not reversed exceeding the highest of its fair value less cost of disposal or its value in use. Based on the value in use calculation and the allocation, a reversal of impairment of HK$195,933,000, HK$221,000 and HK$26,148,000 (31 March 2021: HK$990,509,000, HK$1,119,000 and HK$132,185,000), respectively, has been recognised against the carrying amount of property, plant and equipment, right-of-use assets and intangible assets with finite useful lives.

11. TRADE AND BILLS RECEIVABLES

	30 September 2021	31 March 2021
	HK$'000	*HK$'000*
Trade receivables and accrued income *(Note)*	**74,348**	110,767
Bills receivables	**271,996**	164,068
	346,344	274,835
Less: allowance for credit losses	**(1,004)**	(466)
	345,340	274,369

Note:

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

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

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

	30 September 2021 HK$'000	31 March 2021 HK$'000
0 to 30 days	**88,018**	226,011
31 to 60 days	**83,850**	24,688
61 to 90 days	**90,443**	2,471
Over 90 days	**83,029**	21,199
	345,340	274,369

12. TRADE PAYABLES

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

	30 September 2021 HK$'000	31 March 2021 HK$'000
0 to 30 days	**30,337**	85,161
31 to 60 days	**52,975**	22,893
61 to 90 days	**6,835**	4,877
Over 90 days	**67,792**	60,930
	157,939	173,861

13. CONVERTIBLE NOTES AND LOAN NOTE

(a) Convertible notes

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

	Debt components		Derivative components		Total	
	30 September 2021 HK$'000	31 March 2021 HK$'000	30 September 2021 HK$'000	31 March 2021 HK$'000	30 September 2021 HK$'000	31 March 2021 HK$'000
At beginning of the period/year	**1,819,171**	1,493,058	**1,745,228**	675,110	**3,564,399**	2,168,168
Interest charge	**189,370**	326,113	**–**	–	**189,370**	326,113
Changes in fair value on derivative component	**–**	–	**(494,945)**	1,070,118	**(494,945)**	1,070,118
At end of the period/year	**2,008,541**	1,819,171	**1,250,283**	1,745,228	**3,258,824**	3,564,399

2020 Convertible Notes with maturity date 6 March 2025

On 6 March 2020, the Company issued convertible notes with a principal of HK$2,809,671,052 and HK$628,387,371 to Chow Tai Fook Nominee Limited and Golden Infinity Co., Ltd. respectively (the "**2020 Convertible Notes**"). The 2020 Convertible Notes have a maturity period of five years from issue date to 6 March 2025. They can be converted into 1 ordinary share of the Company of HK$0.02 each for every HK$1.2 at the holders' option at any time since the issue date up to the date immediately prior to their maturity date. The outstanding principal amount would be redeemed at par value on the maturity date or at the issuer's option to redeem at par plus outstanding coupon payment at any time between the issue date and the maturity date. Interest of 3% per annum will be paid in arrears on the maturity date.

The 2020 Convertible Notes contain two components, a debt component and a derivative component with a conversion option derivative of the holders and a prepayment option derivative of the issuer. The effective interest rate of the debt component is 21.82%. The conversion option derivative held by the holders is measured at fair value with changes in fair value recognised in profit or loss as the conversion options does not meet the fixed-for-fixed criteria. Furthermore, the Company may at any time before the maturity date by written notices to the holders, redeem the principal amount of 2020 Convertible Notes (in whole or in part) with accrued interest. The fair value of the prepayment option held by the Group was immaterial as at 31 March 2021 and 30 September 2021.

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

	30 September 2021	31 March 2021
Stock price	**HK$0.89**	HK$1.12
Exercise price	**HK$1.2**	HK$1.2
Volatility *(Note (i))*	**77.80%**	71.97%
Dividend yield	**0%**	0%
Option life *(Note (ii))*	**3.43 years**	3.93 years
Risk free rate	**0.54%**	0.56%

Notes:

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

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

The fair value of the derivative component of 2020 Convertible Notes was determined with reference to a valuation report carried out by an Independent Valuer.

No conversion was made during both periods.

(b) Loan Note

On 21 November 2019, HK$499,878,000 3% convertible note issued to an independent third party (the "**3% ZV Convertible Note**") matured. On 21 November 2019, Mr. Lo took up the full amount owing to the 3% ZV Convertible Note holder through Ruby Pioneer Limited ("**Ruby Pioneer**"). Ruby Pioneer was a wholly-owned company of Mr. Lo as at 21 November 2019. Immediately after the aforesaid taking up, the Company and Ruby Pioneer entered into a standstill agreement pursuant to which Ruby Pioneer agreed to extend the note for five years from 21 November 2019 to 21 November 2024 at coupon rate of 3% per annum. This transaction is accounted for as an extinguishment of the 3% ZV Convertible Note and the recognition of the new loan note to Ruby Pioneer. The new loan note is unsecured and has an effective interest rate of 22.37%.

14. CONTINGENT LIABILITIES

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

The former mining contractor issued two writs of summons on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK$93.7 million. In May 2015, the former mining contractor applied to High Court to amend its statements of claim under the two writs by amending, among others, (i) the currency of the claims from MNT to United States dollars; and (ii) the amount of the claims to include the alleged contractor's fees up to October 2014. According to amended statement of claims, total claims under two writs were at approximately HK$198.9 million. The two actions were subsequently consolidated and the amount claimed has been reduced to approximately HK$105.6 million and approximately HK$50.0 million was provided for in the condensed consolidated financial statements as at 30 September 2021 (2020: HK$50.0 million). Based on the opinion provided by legal counsel of the Company, the Directors consider that the payment of the remaining balance is not probable.

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the Financial Period (2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS ANALYSIS

Revenue

In the Financial Period, the Group's revenue was HK$941.0 million (2020: HK$268.9 million). The significant increase of revenue was principally due to our comparatively weak performance in last corresponding period. Since the outbreak of COVID-19 in both Mongolia and China in 2020, border closures of both countries took place frequently which impacted our coal export efficiency. With the gradual improvement in the disease preventive measures and the implementation of seven-day opening of the borders for shipping since February 2021, we were able to boost our coal export volume from Mongolia to China under the Financial Period. Besides, China's decarbonization drive and the implementation of tighter coal mine safety requirements had limited its domestic coking coal supply. Consequently, an overall increase in coking coal prices was noted. During the Financial Period, the Group sold approximately 564,200 tonnes (2020: 224,600 tonnes) of clean coking coal and approximately 85,500 tonnes (2020: 14,100 tonnes) of thermal coal and approximately 24,300 tonnes (2020: 34 tonnes) of raw coal. The average selling prices of clean coking coal, thermal coal and raw coal net of sales tax were approximately HK$1,637.0 (2020: HK$1,194.0), HK$58.7 (2020: HK$46.5) and HK$454.0 (2020: HK$647.7) per tonne respectively.

Cost of Sales

Cost of sales includes mining costs, coal processing costs, transportation costs, costs on disposal of coal refuse and other relevant operating expenses. The cost of sales for the Financial Period was HK$511.0 million (2020: HK$169.4 million). The overall increase was mainly due to the increase in production volume during the Financial Period. It was divided into cash costs of HK$489.0 million (2020: HK$162.9 million) and non-cash costs of HK$22.0 million (2020: HK$6.5 million).

Gross Profit

Gross profit ratio for the Financial Period was increased to 45.7% (2020: 37.0%). The increase in gross profit ratio was mainly attributable to the increase in average selling prices during the Financial Period.

Other Income

The significant drop in other income during the Financial Period was due to a one-off gain from a settlement agreement with an ex-exploration contractor in respect of legal claims on prepaid contract deposit of approximately HK$33.9 million was recognized in last corresponding period.

Other Gains and Losses

The net loss mainly comprised a fair value loss of HK$10.6 million arising from an investment in a Hong Kong listed company (2020: HK$9.3 million).

Changes in Fair Value on Derivative Component of Convertible Notes

The convertible notes issued by the Company in 2020 (the "**2020 Convertible Notes**") contain both debt and derivative components. The conversion option derivative of the 2020 Convertible Notes requires remeasurement at the end of each reporting period and a resulting gain in fair value change amounting to HK$494.9 million was recognized in the Financial Period (2020: loss of HK$714.7 million). The major inputs into the binomial valuation model to work out the valuation of the conversion option derivative have been disclosed in Note 13(a) to the condensed consolidated financial statements.

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

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

Key changes in assumptions used in the discounted cash flow model as at 30 September 2021 and 31 March 2021 are set out as below:

	Notes	**30 September 2021**	31 March 2021
Discount rate	*(a)*	**21.15%**	21.06%
Average current coking coal price per tonne	*(b)*	**US$188**	US$137
Inflation rate	*(c)*	**1.99%**	1.99%
Predicted average annual growth rate of the coking coal price for the forthcoming four-year period since Period ended	*(d)*	**– 4.13%**	3.93%

Notes:

(a) *The discount rate is derived from the Group's weighted average cost of capital ("**WACC**") with appropriate adjustments made to reflect the risks specific to the Khushuut Coal Mine. The computation of WACC takes into account both cost of debt and equity, and weighted based on the Group's and comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors and based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of comparable peer companies. The change of discount rate from last period was a combined result of the updates on the WACC including the risk-free rate and other risk premium factors. The risk-free rate adopted was the yield of China 10-year government bond as at 30 September 2021. The risk premium factors are to reflect the business risks of the Khushuut Coal Mine;*

(b) *The average current coking coal price was updated based on latest sales contracts;*

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

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

In pursuant to the recoverable amount assessment, a reversal of impairment amounted to HK$222.3 million was made in the Financial Period (2020: impairment loss of HK$91.7 million).

Finance Costs

The major components in the finance costs were the effective interest expenses on convertible notes, interest charge on advances from a Director and a loan note. The interest charge on the debt component of the convertible notes issued by the Company was calculated at an effective interest rate of 21.82% per annum (2020: 21.82%). The interest charge on the advances from a Director was calculated at the Hong Kong prime rate plus 3% per annum, which was same as previous financial periods. The interest of the loan note was charged at an effective interest rate of 22.37% per annum (2020: 22.37%).

MARKET REVIEW

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

Last year, China's economy grew only by 2.3% in the gross domestic product ("**GDP**"), which was the slowest annual growth rate in decades under the serious challenges posed by the COVID-19 pandemic globally. According to the data of the National Bureau of Statistics of China ("**NBS**"), China's economy continued to recover from the pandemic for the first half of 2021. It achieved 18.3% surge in GDP in the first quarter of 2021. However, the slowing down of factory activities, higher material costs and stringent COVID-19 control measures dragged the trend of recovery to a growth of 7.9% in the second quarter. The growth in the first half of the year in GDP was mainly brought by retail consumption which accounted for 61.7% of GDP growth while industrial production only by 16.7% in the period.

The global crude steel production was able to achieve 1,461.2 million tonnes for the first nine months in 2021, a growth of 7.8% according to the recent data of the World Steel Association. China remained the biggest crude steel producing country in the world during this period, producing 806 million tonnes and accounting for 55% of the world's crude steel production, up 2% compared with the same period in 2020.

According to the China General Administration of Customs (GAC), for the first nine months of 2021, the steel products export volume of China was 53 million tonnes, a surge of 31.3% compared with 40.38 million tonnes year on year. The value of the export had increased by 64.3% to RMB382 billion during this period. Steel products of China are mainly exported to developing countries mostly in Asia.

In respect of the coal industry of China, the income of the coal mining and washing sectors of industrial enterprises above the designated size recorded a rise of 44.6% in the first nine months of 2021 and a surge in profit of 172.2% compared with the same period last year. According to the NBS, China produced 2.93 billion tonnes of raw coal for the first nine months of 2021, a year-on-year increase of 3.7%. For the same period, China imported a total of 230.4 million tonnes of coal, down 3.6% year on year. Despite high internal demand, coal import slowdown of China was mainly due to the supply shortage around the world, the consequences from the impacts of COVID-19, gradual economic recovery around the globe leading to the increase in demand of coal and the shipping issues. These factors drove the coal price to a record high level.

In respect of coking coal, according to the data from GAC, the import volume into China for the first nine months of 2021 was 35 million tonnes, a slump of 41% year on year. The fall in coking coal import was mainly due to the escalation of COVID-19 in Mongolia, causing reduced production and export of coking coal. The continuous shortage of domestic coking coal supply in China, together with the reduction of coking coal import from Mongolia and the repeated high prices have prompted the Chinese steel companies to switch to more cost-effective seaborne coking coal from other countries such as the United States. The United States is the country with the fastest increase in the import of coking coal into China.

Since the second half of 2020, the COVID-19 epidemic in Mongolia was gradually under control, it reopened its trade ports and borders, and its economy picked up. Commodity exports had been given the priority to lead ahead, which drove the overall economic growth. In the first half of 2021, the pace of recovery in Mongolia continued. Its economy recorded an increase of 4.1% year on year. The main drivers of growth include the government's stimulus packages, the global economic recovery, and an effective vaccine rollout. However, in March of 2021, COVID-19 broke out again and escalated rapidly. The Mongolia government was required to implement responsive measures again by shutting down places like schools, workplaces, borders in order to contain the spread of the virus.

Latest data released by the General Administration of Customs of Mongolia shows that from January to September 2021, Mongolia's coal exports were totalled 11.99 million tonnes, which is a year-on-year decrease of 39.51%. The deterioration was mainly due to Mongolia's lock down measures under the impact of COVID-19. Over 90% of the Mongolia coal export went to China. According to the data of China Customs, it supplied 10.58 million tonnes of coking coal to China from January to September this year, down 35.8% year on year. It is still unknown whether Mongolia can achieve the goal of total coal exports target of 20 million tonnes in 2021.

BUSINESS REVIEW

Coal Sales

Our coal sales amounts increased approximately HK$672.1 million during the Financial Period compared with the same period last year.

Coal Production

During the Financial Period, due to the COVID-19 pandemic, only approximately 5,448,900 bank cubic meters ("**BCM**") of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2020: 270,800 BCM). Production of coking coal (before processing) was approximately 882,200 tonnes (2020: 279,100 tonnes).

Coal Processing

During the Financial Period, approximately 957,000 tonnes of ROM coal (2020: 295,600 tonnes) were processed by the dry coal processing plant, producing approximately 763,600 tonnes of raw coking coal (2020: 272,100 tonnes). The average recovery rate was 79.8%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customers.

In Xinjiang, approximately 767,600 tonnes of raw coking coal (2020: 306,100 tonnes) were processed by the washing plant, producing approximately 582,800 tonnes of clean coking coal (2020: 248,600 tonnes). The average recovery rate was 75.9%.

Customers and Sales

The customers of our coking coal are all in Xinjiang. In respect of our major customer, the actual sales price and quantity to be delivered have to be negotiated and mutually agreed from time to time, monthly in general, between the parties. Clearing is based on the actual clean coking coal delivered after washing, and on this basis, we sold 288,600 tonnes of clean coking coal to this customer during the Financial Period. It accounted for approximately 51.2% of our revenue in the Financial Period.

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

We had thirteen customers in Xinjiang for our coking coal during the Financial Period.

Licences

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

Legal and Political Aspects

Like most countries globally, the COVID-19 pandemic has posed significant challenges to Mongolia in its logistics system and supply chains in Mongolia. Multiple national lockdowns in Mongolia and its neighbouring Russia and China continue to slow or even temporarily stop the flow of materials, including coal, the major export product of the country's mining industry.

Over the pandemic period, Mongolian Government reformed its trade and cross-border's logistics management strategies to become more resilient and responsive to the circumstances. Border control, trade and disease prevention agencies, private transporting and logistics companies of Mongolia, Russia and China all collaborated for suitable solutions on all spectrums of cross-border logistics' problems. The Cabinet of Mongolia approved a number of resolutions for optimizing cross-border trade through enhancing digital infrastructures in the borders to fasten the control and flow of goods and improving the overall operations of border ports and crossing points. The Mongolian Government also expedites the building of coal storage terminals at some border ports through its larger coal producing state-owned enterprises. The Exclusive Border Ports Administration was set up in July 2021 with an aim to increase the turnover of mineral and oil exports and foreign trade.

In addition, the Mongolian Government puts its efforts to accelerate the increase in capacity of several border points including Bulgan in the Khovd province through which MoEnCo exports its coal. Such move is in line with the objective specified in the long term development strategy of the Mongolian Government called "**Vision 2050**" and adopted in May 2020, where this task has initially been contemplated for completion within the period of 2021-2030.

To meet the contemporary society, Mongolia approved the new revised edition of the Labour Code in July 2021. The new Labour Code, effective from 1 January 2022, includes new provisions reflecting the current social and economic realities of the labour market, such as tripartite employment relations, remote working and domestic helpers in both city and rural setting. In respect of the extractive industry, the new Labour Code now limits a long shift duration to 14 days (down from 21 or less days according to the 1999 Labour Code) and extends recuperation days after a shift to 14 days (instead of at least 10 days under the 1999 Labour Code) as a long hour shift at work is the normal practice of the industry.

Since early 2020, Mongolia's health-care system has stretched to the limit due to the profound implications of the COVID-19 pandemic. Containing and mitigating the spread and infection rate of the virus continue to be essential, so is the strengthening of the national health system capacity to respond expeditiously and effectively. From late 2020 through 2021, Mongolian Parliament approved not only a number of resolutions specifically responding to the COVID-19, but has also been swiftly amending a number of health and insurance related laws and enacting the relevant resolutions aimed at improving the efficiency and effectiveness of the allocation of public funds to the medical and health sectors; healthcare capacity; and the quality of service to all levels.

Approval of the new revised edition of Cooperatives Law in May, 2021, which replaced the 1998 law, is expected to become another promoting factor for more job creation and economic recovery under the COVID-19. The Cooperatives Law applies to about 235,000 people who have joined over 1200 registered cooperatives operating in agricultural, mining, manufacturing of goods and other small industries. The new Law aims to support cooperatives in line with the government policies to stimulate the cooperative movement and increase employment. The new provisions ease the registration of rural cooperatives, better define the powers and functions of the public administrative bodies in charge of cooperatives at all levels and of the cooperatives themselves, help the cooperative's access to loans from private financial institutions and calls for improved accountability and internal controls.

In April 2021, Mongolia adopted the Law on Legal Status of Human Rights Defenders, thus becoming a pioneer in Asia to approve a law to protect individuals, civil groups, NGOs and communities who stand up for human rights. There have been a number of cases of violations committed against human rights defenders in Mongolia. The protection of human rights defenders has become essential for promoting human rights in the country. Another significance of this law is the introduction of a new concept of 'human rights defenders' in the country's legislation.

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

In respect of the claim of US$13.5 million lodged by Thiess since 2013, there were no substantial development during the Financial Period.

FINANCIAL REVIEW

Liquidity and Financial Resources

In preparing the condensed consolidated financial statements, the Directors have given careful consideration of the future liquidity of the Group. While recognising that the Group had net liabilities of HK$1,852.0 million and net current liabilities of approximately HK$1,131.0 million as at 30 September 2021, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future given that: (1) Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder and chairman of the Company who has significant influence over the Group, has provided facilities amounting to HK$1,900.0 million. The balance of the unutilised facilities of HK$936.9 million as at 30 September 2021 remains valid until 31 March 2023; and (2) Mr. Lo does not intend to demand immediate repayment of his advances to the Company. The borrowings of the Group as at 30 September 2021 were the convertible notes, loan note and advances from Mr. Lo in aggregate of HK$5,264.7 million (31 March 2021: HK$5,692.3 million). Apart from advances from Mr. Lo which are unsecured and classified as current liabilities, the convertible notes and loan note are classified as non-current liabilities.

As at 30 September 2021, the cash and bank balances of the Group were HK$53.1 million (31 March 2021: HK$57.6 million) and the liquidity ratio was 0.44 (31 March 2021: 0.35).

Property, Plant and Equipment

The increase in the carrying values of the property, plant and equipment was due to the reversal of impairment loss amounting to HK$196.0 million (2020: impairment loss of HK$82.5 million). During the Financial Period, the Group had incurred capital expenditures of approximately HK$47.3 million (2020: HK$2.1 million).

Trade and Bills Receivables

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

Other Receivables, Prepayments and Deposits

It mainly comprised prepaid value added tax of HK$158.5 million (31 March 2021: HK$129.8 million) to be refunded by the government of Mongolia.

Financial Assets at Fair Value Through Profit or Loss

As at 30 September 2021, the fair value of the financial assets at fair value through profit or loss was HK$40.2 million (31 March 2021: HK$50.8 million), which was approximately 1.1% (31 March 2021: 1.5%) of the total assets of the Group. It represents the Group's interest in Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "**Jade Bird**"), a company listed in Hong Kong. The principal activities of Jade Bird and its subsidiaries are engaging in the technology research, development, marketing and sale of embedded system products and related products in security and fire alarm systems. The Group's investment is approximately 5.58% (31 March 2021: 5.58%) of the total issued share capital of Jade Bird. During the Financial Period, the Group did not receive any dividend from Jade Bird. The decrease in carrying value of the financial assets at fair value through profit or loss was mainly due to the fair value loss of HK$10.6 million (2020: HK$9.3 million).

Other Payables and Accruals

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

Charge on Group's Assets

There was no charge on the Group's assets as at 30 September 2021 (31 March 2021: Nil).

Gearing Ratio

As at 30 September 2021, the gearing ratio of the Group was 1.4 (31 March 2021: 1.7) which was calculated based on the Group's total borrowings to total assets.

Foreign Exchange

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

Contingent Liabilities

As at 30 September 2021, there were no material changes to the nature of the Group's contingent liabilities and they were all related to the legal claims made by a former mining contractor in 2013.

OUTLOOK

There should be no doubt that the world economy is on the track of recovery in 2021. However, there are still uncertainties hovering over the economy. Following the rapid growth at the beginning of the year under the strong policy support, deployment of effective vaccines and resumption of many economic activities by most countries, the pace of economic growth has started to slow around the world in the latter part of the year. The constraints on production, new COVID outbreaks, Delta variant and China's zero-tolerance policy on COVID infection serve to slow down the recovery. The International Monetary Fund (IMF) predicts the global economy to grow 5.9 % this year and 4.9 % in 2022 while the Organization for Economic Co-operation and Development (OECD) trims its global growth forecast to 5.7 % from 5.8 % for 2021 and predicts 4.5 % in 2022.

China has set a minimum target growth of 6% for 2021. According to the latest release of China's GDP for the third quarter of 2021, the GDP grew only 4.9% in the third quarter, less than the 5.2% rise expected. The worse-than-expected third quarter economic performance for China was mainly driven by the surge in the coal price and an electricity shortage, many factories were forced to stop production. The recent purchasing managers' index (PMI) for China's manufacturing sector also came in at 49.2 in October 2021, down from 49.6 in September. The figure shows that production and market demand in the manufacturing sector of China begins to weaken. The country's economic growth is projected to reach 6% for 2021 under the continuing recovery of global demand and the nation's role as a key player of international supply chain. The IMF also projects China to grow by 8% in 2021 and 5.6% in 2022.

China was the largest crude steel producing country and also the biggest consumer in 2020. The World Steel Association forecasts that global steel demand growth in 2021 will amount to 4.5% and steel demand will see a further increase of 2.2% in 2022.

China has pledged to bring down its carbon emission to a peak by 2030 and reach carbon neutrality by 2060. Since the rolling out of the carbon neutrality commitment last year, it has been a firm policy of the nation to implement tight control on carbon emissions. The steel and coal producing sectors are the forefront sectors having the direct impact. In order to reduce carbon emissions and pollutants from the ferrous sector, steel production has been capped since June this year. China's crude steel production fell for a third straight months in September due to the carbon emissions reduction policy and the power shortage. The shortage of steel and coal supplies also push their respective prices to a higher than normal level. We believe the trend will continue in the short run unless there is a drastic policy change.

According to the Asian Development Bank (ADB), Mongolia's GDP is expected to grow 4.6% in 2021 on the back of constant economic recovery. Its economic growth drivers are mainly attributed to the robust export demand, increased private outlays as well as strong economic recovery of China. According to ADB, if COVID-19 concerns ease, the transportation and logistics issues affecting exports are resolved, and domestic demand rises, Mongolia's GDP growth is expected to accelerate to 6% in 2022.

Mongolia is a country rich in mineral resources. The mining sector is Mongolia's leading export sector. It accounts for almost 90% of its total exports. It is also one of the largest exporters of coking coal into China. However, due to the escalation of the new COVID-19 cases, some of the border checkpoints in Mongolia and China for coal shipping were closed from time to time this year under stringent border controls to contain any possible spread of the virus. The practice seriously interrupted the mining commodities export of Mongolia. Up to September this year, Mongolia's coal export was 11.99 million tonnes, which is substantially lower than the annual target of 20 million tonnes set for 2021. According to the Mongolian governmental source, the Mongolian government has set a plan striving to achieve a coal export target of 36.5 million tonnes in 2022.

As a result of high frequency of use of our Khushuut Road, worn out effects occur which prompted repair and road enhancement works in October which seriously interrupted our coal delivery to our customers in China. Furthermore, due to the recent escalation of the COVID-19 in Mongolia and reported cases in the Xinjiang areas, our coal shipping border in China has been temporarily closed since October 2021 and our coal export to China has to be halted. We will closely monitor the border re-open developments and be prepared to cooperate in the controlling measures of both governments. Under the circumstances not under our control, our performance in the second half of the financial period this year would be full of challenge.

We hope the issues of COVID-19 will eventually wane in 2022 and the stringent border control processes for export will gradually be melted away. Although the carbon emission reduction policy is having a negative impact on the steel industry in China, coking coal is still in short supply. China has requested more coal from Mongolia to help offset an ongoing coal supply shortage. We will do our best to grasp this opportunity in ramping up our production and sales in the coming year.

HUMAN RESOURCES

As at 30 September 2021, excluding site and construction workers directly employed by our contractors, the Group employed 676 full-time employees in Hong Kong, Mongolia, and the PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on a periodic basis. Apart from the retirement scheme, year-end bonus, and share options are awarded to the employees according to performance of the Group, assessment of individual performance, and industry practice. Appropriate training programs are also offered for staff training and development.

PURCHASE, SALE OR REDEMPTION OR THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the Company’s listed securities during the Financial Period.

CORPORATE GOVERNANCE

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

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

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

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

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

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

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

   Due to other business engagement, the Chairman was unable to attend the 2021 AGM. Mr. Tsui Hing Chuen, William *JP*, an independent non-executive Director of the Company took the chair of the 2021 AGM and answered questions raised by the shareholders. The AGM provides a channel for communication between the Board and the shareholders. Other than the AGM, the shareholders may communicate with the Company through the contact methods listed on the Company's website.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTION

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

The Company has also established written guidelines on terms no less exacting than the Model Code (the "**Employees' Guidelines**") for securities transactions by relevant employees of the Group who are likely to be in possession of unpublished inside information of the Company.

To enhance corporate governance transparency, the Code and the Employees' Guidelines have been published on the Company's website at www.mongolia-energy.com.

During the period of sixty days immediately preceding and including the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to and including the publication date of the annual results, all the Directors and the relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published.

During the period of thirty days immediately preceding and including the publication date of the half year results or, if shorter, the period from the end of the half year period up to and including the publication date of the half year results, all the Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published.

The Company Secretary and the Legal and Compliance Department will send reminders prior to the commencement of such period to all the Directors and relevant employees respectively.

It is stipulated under the Code and/or the Employees' Guidelines that all dealings of the Company's securities must be conducted in accordance with the provisions stated therein. Under the Code, the Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company, and in the case of the Chairman himself, he must notify the designated Director and receive a dated written acknowledgement before any dealings.

Having made specific enquiry by the Company, all the Directors confirmed that they had complied with the required standards as set out in the Model Code and the Code regarding directors' securities transactions during the Financial Period. Besides, no incident of non-compliance by the relevant employees was noted by the Company for the six months ended 30 September 2021.

AUDIT COMMITTEE

The Audit Committee of the Company currently comprises three independent non-executive Directors, namely Mr. Lau Wai Piu (Chairman of the Audit Committee), Mr. Tsui Hing Chuen, William *JP*, and Mr. Lee Kee Wai, Frank. Chairman of the Audit Committee has appropriate professional qualifications, accounting and related financial management expertise.

The Audit Committee had reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2021.

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

Hong Kong, 26 November 2021

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