

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

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 2017 (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 2017

		Six months ended 30 September	
		2017	2016
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Revenue	3	247,385	140,251
Cost of sales		<u>(121,525)</u>	<u>(88,746)</u>
Gross profit		125,860	51,505
Other income		2,283	6,861
Other gains and losses	4	(26,824)	8,708
Administrative expenses		(81,540)	(44,060)
Changes in fair value on derivative component of convertible notes	13	83,759	65,730
Impairment loss on available-for-sale financial asset		(29)	(40)
Impairment loss on amount due from associate		(4)	(4)
Finance costs	5	<u>(301,398)</u>	<u>(244,144)</u>
Loss before taxation	7	(197,893)	(155,444)
Income tax expense	6	<u>—</u>	<u>—</u>
Loss for the period		<u>(197,893)</u>	<u>(155,444)</u>

		Six months ended	
		30 September	
		2017	2016
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Loss for the period attributable to owners of the Company		<u>(197,893)</u>	<u>(155,444)</u>
Loss per share attributable to owners of the Company			
	8		
– basic and diluted loss per share (HK cents)		<u>(10.52)</u>	<u>(8.70)</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	Six months ended 30 September	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Loss for the period	(197,893)	(155,444)
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences arising on translation	<u>2,535</u>	<u>459</u>
Total comprehensive expense for the period	<u><u>(195,358)</u></u>	<u><u>(154,985)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

	Notes	30 September 2017 HK\$'000 (unaudited)	31 March 2017 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	279,277	256,115
Intangible assets	9	26,089	26,473
Exploration and evaluation assets	10	190	156
Interests in associates		–	–
Available-for-sale financial asset		–	–
Other asset		1,150	1,150
Prepaid lease payment		491	477
		<u>307,197</u>	<u>284,371</u>
Current assets			
Prepaid lease payment		11	10
Inventories		77,790	62,722
Trade and bills receivables	11	120,043	159,586
Other receivables, prepayments and deposits		39,822	34,761
Held-for-trading investments		126,879	156,713
Amounts due from associates		–	–
Cash and cash equivalents		85,832	14,197
		<u>450,377</u>	<u>427,989</u>
Current liabilities			
Trade payables	12	90,397	102,989
Other payables and accruals		146,910	147,403
Advances from a Director		1,692,254	1,613,067
Other loan		8,316	7,755
Deferred income		1,461	1,352
		<u>1,939,338</u>	<u>1,872,566</u>
Net current liabilities		<u>(1,488,961)</u>	<u>(1,444,577)</u>
Total assets less current liabilities		<u>(1,181,764)</u>	<u>(1,160,206)</u>
Non-current liabilities			
Convertible notes	13	2,913,806	2,761,989
Deferred income		9,279	9,196
		<u>2,923,085</u>	<u>2,771,185</u>
Net liabilities		<u>(4,104,849)</u>	<u>(3,931,391)</u>
Financed by:			
Capital and reserves			
Share capital		37,625	37,625
Reserves		(4,142,474)	(3,969,016)
Capital deficiencies attributable to owners of the Company		<u>(4,104,849)</u>	<u>(3,931,391)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

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. While recognising that the Group had net liabilities of approximately HK\$4,104.8 million and had net current liabilities of approximately HK\$1,489.0 million at 30 September 2017 and incurred a loss of approximately HK\$197.9 million for the six-month period then ended, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future as Mr. Lo Lin Shing, Simon (“**Mr. Lo**”), a substantial shareholder who has significant influence over the Group and being the Chairman and Director of the Company, has provided facilities amounting to HK\$1,900.0 million, of which approximately HK\$207.7 million, after taking into account of the interest payable of approximately HK\$395.5 million, was unutilised as at 30 September 2017. The balance of the unutilised facilities remains valid until 29 March 2019 and Mr. Lo does not intend to demand repayment of the loan until the Company has sufficient cash to make repayment. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2017.

In the current interim period, the Group has applied the following amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA:

HKAS 7 (Amendments)	Disclosure Initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 (Amendments)	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

The application of the above amendments to HKFRSs in the current period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

The application of Amendments to HKAS 7 “Disclosure Initiative” will result in additional disclosures on the Group’s financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided in the consolidated financial statements for the year ending 31 March 2018 on application.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in (i) mining, processing and sale of coal; and (ii) other resources related business. Revenue represents income arising from the sale of coal to external customers.

The Group's operating activities are focusing on the coal mining business. This operating segment has been identified on the basis of information reported to the chief operating decision maker (i.e. the Executive Directors) for the purpose of resource allocation and performance assessment.

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 2017

	Coal mining HK\$'000	Total HK\$'000
Segment revenue	<u>247,385</u>	<u>247,385</u>
Segment profit	<u>99,127</u>	99,127
Unallocated expenses (<i>Note</i>)		(51,947)
Other income		1,096
Other gains and losses		(28,732)
Changes in fair value on derivative component of convertible notes		83,759
Impairment loss on available-for-sale financial asset		(29)
Impairment loss on amount due from associate		(4)
Finance costs		<u>(301,163)</u>
Loss before taxation		<u>(197,893)</u>

Note:

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

For the six months ended 30 September 2016

	Coal mining HK\$'000	Total HK\$'000
Segment revenue	<u>140,251</u>	<u>140,251</u>
Segment profit	<u>42,903</u>	42,903
Unallocated expenses (<i>Note</i>)		(25,706)
Other Income		4
Other gains and losses		5,666
Changes in fair value on derivative component of convertible notes		65,730
Impairment loss on available-for-sale financial asset		(40)
Impairment loss on amount due from associate		(4)
Finance costs		<u>(243,997)</u>
Loss before taxation		<u>(155,444)</u>

Note:

Unallocated expenses mainly included 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 2017 HK\$'000	31 March 2017 HK\$'000
Coal mining	<u>610,754</u>	<u>541,000</u>

4. OTHER GAINS AND LOSSES

	Six months ended 30 September 2017 HK\$'000	2016 HK\$'000
Changes in fair value on held-for-trading investments	(28,724)	5,666
Gain on disposal of property, plant and equipment	55	93
Loss on write off of property, plant and equipment	—	(8)
Net exchange gain	<u>1,845</u>	<u>2,957</u>
	<u>(26,824)</u>	<u>8,708</u>

5. FINANCE COSTS

	Six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
Interest on advances from a Director	65,587	47,606
Interest on other loan (<i>Note</i>)	235	147
Effective interest expense on convertible notes (<i>Note 13</i>)	<u>235,576</u>	<u>196,391</u>
	<u><u>301,398</u></u>	<u><u>244,144</u></u>

Note:

The amount represents interest payable to a short term unsecured loan with principal amount of HK\$7.6 million. The interest expense was charged at 6% per annum and repayable by giving 30 days notice.

6. INCOME TAX EXPENSE

Hong Kong Profits Tax was calculated at 16.5% at the estimated assessable profit (if any) for both periods.

Enterprise Income Tax of the People's Republic of China (the "PRC") was provided at the applicable enterprise income tax rate of 25% on the estimated assessable profits (if any) of the Group's PRC subsidiaries for both periods.

Mongolian corporate income tax was calculated at 10% to the first Mongolian Tugrik 3 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.

No provision for Hong Kong and overseas taxation has been made for both periods as the Group has no assessable profit arising from operation in Hong Kong and the assessable profit arising from overseas operation was wholly absorbed by tax losses brought forward.

7. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging (crediting):

	Six months ended	
	30 September	
	2017	2016
	HK\$'000	HK\$'000
Amortisation of intangible assets	836	830
Depreciation of property, plant and equipment	4,046	5,837
Less: amortisation and depreciation capitalised in inventories	(2,577)	(2,249)
	2,305	4,418
Employee benefit expenses, including Directors' emoluments (net of reimbursement from a related party)	61,851	40,307
Less: employee benefit expenses capitalised in inventories	(11,528)	(15,192)
	50,323	25,115
Operating lease rentals in respect of office premises (net of reimbursement from a related party)	1,575	1,448

8. LOSS PER SHARE

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

	Six months ended	
	30 September	
	2017	2016
	HK\$'000	HK\$'000
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	197,893	155,444

	Six months ended	
	30 September	
	2017	2016
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	1,881,258	1,786,758

Note:

The computation of diluted loss per share for both periods 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.

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

Property, Plant and Equipment

During the six months ended 30 September 2017, the Group spent approximately HK\$108,000 (2016: HK\$1,647,000), HK\$19,348,000 (2016: HK\$436,000), HK\$2,298,000 (2016: HK\$1,745,000) and HK\$3,522,000 (2016: HK\$527,000) on mining structures, construction in progress, plant, machinery and other equipment and motor vehicles respectively.

Intangible Assets

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

There were no significant capital expenditures spent in the intangible assets for both periods.

Mining Prohibition Law (the “MPL”) in Mongolia

On 16 July 2009, the Parliament of Mongolia enacted the MPL which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas and areas adjacent to rivers and lakes (the “**Defined Prohibited Areas**”). Pursuant to the MPL, the Mongolian government was supposed to define the boundaries of the relevant prohibited areas by 16 October 2009 but it had not done so by the prescribed time. It also states that any previously granted licences that overlap the Defined Prohibited Areas will be terminated within five months following the enactment of the law.

The MPL further states that affected licence holders shall be compensated but details as to how the compensation is determined have not been specified in the MPL and the Mongolian government has not yet released any further guidance on how to interpret the MPL.

On 18 February 2015, the Parliament of Mongolia amended the Law on Implementation of the Law on Prohibition of Exploration and Mining in Headwaters of Rivers, Protected Water Basins Zones and Forested Areas, and provided option for the licence holders to continue their operations subject to undertaking a number of obligations in operations and submit a request to the Mineral Resources and Petroleum Authority of Mongolia (the “**MRPAM**”) and enter into agreement with the Ministry of Environment, Green Development and Tourism of Mongolia, MRPAM and the governor of the relevant province.

During the year ended 31 March 2016, MoEnCo LLC (“**MoEnCo**”), an indirect wholly-owned subsidiary of the Company, made revision to the coordinates of licensed area of 11888A which was the mining concession being affected by the MPL by removing any overlap in the protected area. As at 30 September 2017, the MRPAM confirmed that no mining concession (at 31 March 2017: Nil) owned by MoEnCo has partially overlapped with protected area under the MPL.

10. EXPLORATION AND EVALUATION ASSETS

	Mining and exploration rights	Others (Note c)	Total
	HK\$'000	HK\$'000	HK\$'000
COST			
At 1 April 2016 (Note a)	—	—	—
Addition (Note b)	151	5	156
At 31 March 2017	151	5	156
Addition (Note b)	—	34	34
At 30 September 2017	151	39	190

Notes:

- (a) Mining and exploration rights as at 1 April 2016 solely represent an exploration concession of around 2,986 hectares in Western Mongolia for ferrous resources. This iron ore exploration concession has been affected by the MPL. Zvezdametrika LLC (“Z LLC”), an indirect wholly-owned subsidiary of the Company which owns the iron ore exploration concession, received a notice from the MRPAM during the year ended 31 March 2010 about the potential revocation of its exploration concession under the MPL and Z LLC was requested to submit the estimated compensation for termination of licences with supporting documents. After taking legal advice from the Group’s Mongolian legal advisers, the Group decided not to respond to the MRPAM’s request. The Group’s legal advisers confirmed their interpretation of the relevant legislation that following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licensed area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. According to the best knowledge of the management, there was no revocation of its licences as at 30 September 2017.

During the year ended 31 March 2015, the condition of the iron ore market in China became considerably more unfavourable due to the significant drop in iron ore prices and the continuing fall in demand. In view of the then and present market sentiment, the development and production costs are expected to be high which will unlikely to achieve a positive return for the Group. Further, the exploration and the ongoing development of the iron mine would require additional capital by the Group and increase the Group’s financial pressure in addition to the need for its coal mining business. Based on the aforesaid, management is of the view that it is not in the Group’s interest to develop and retain the iron mine and has decided to concentrate the Group’s resources on the re-commencement of commercial production of the Khushuut Coal Mine. In view of the then pessimistic business outlook of the iron ore industry and the significant capital investment required to develop the iron ore concession, management of the Group is of the opinion that it is unlikely to identify a potential purchaser to acquire the iron ore concession in its current condition (also taking into account the uncertainties of the application of the MPL to the concession), before the exploration licence expires in October 2020.

Also, based on the research performed by management during the year ended 31 March 2015, minimal transactions in the market in Mongolia for iron ore concessions were recorded due to the fact that current market conditions are making investment in smaller iron ore concessions uneconomical (in particular those in more remote regions without established infrastructure). Management therefore determined that the recoverable amount of this iron ore exploration concession, if any, was likely to be minimal and decided that the entire carrying amount was impaired during the year ended 31 March 2015.

During the six months period ended 30 September 2017, the management considered that the factors mentioned above continued to apply and concluded that the recoverable amount of the iron ore concession remains minimal. Accordingly, no reversal of impairment loss was considered necessary in the current interim period. As at 30 September 2017, only limited exploration works were done on the iron ore concession.

- (b) Addition of mining and exploration rights represents an exploration concession acquired.
- (c) Other represents the expenses incurred for the concession acquired as mentioned in note (b).
- (d) Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for three successive periods of 3 years each and mining licences for two successive periods of 20 years each.

11. TRADE AND BILLS RECEIVABLES

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Trade receivables	46,398	18,087
Bills receivables	36,492	36,995
Accrued income (<i>Note</i>)	37,153	104,504
	<u>120,043</u>	<u>159,586</u>

Note:

Income was accrued on the basis that coals are delivered and the customer has accepted the goods based on the price predetermined when sale and purchase agreement is signed and invoice will be issued within 3 months after delivery.

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 and bills receivables.

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
1 to 30 days	84,979	41,757
31 to 60 days	17,277	49,447
61 to 90 days	7,192	19,316
Over 90 days	10,595	49,066
	<u>120,043</u>	<u>159,586</u>

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 2017 HK\$'000	31 March 2017 HK\$'000
0 to 30 days	25,284	15,764
31 to 60 days	10,454	20,828
61 to 90 days	3,268	9,616
Over 90 days	51,391	56,781
	<u>90,397</u>	<u>102,989</u>

13. 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 2017 HK\$'000	31 March 2017 HK\$'000	30 September 2017 HK\$'000	31 March 2017 HK\$'000	30 September 2017 HK\$'000	31 March 2017 HK\$'000
At beginning of the period/year	2,463,743	2,053,436	298,246	534,217	2,761,989	2,587,653
Interest charge	235,576	410,307	–	–	235,576	410,307
Changes in fair value on derivative component	–	–	(83,759)	(235,971)	(83,759)	(235,971)
At end of the period/year	<u>2,699,319</u>	<u>2,463,743</u>	<u>214,487</u>	<u>298,246</u>	<u>2,913,806</u>	<u>2,761,989</u>

2014 Convertible Notes with maturity date 21 November 2019

On 21 November 2014, the Company issued convertible notes with principal amounts of HK\$2,424,822,000, HK\$542,315,000 and HK\$499,878,000 to Chow Tai Fook Nominee Limited, Golden Infinity Co., Ltd. (“**Golden Infinity**”) and the holders of the 3.5% convertible notes with aggregate principal amount of HK\$466.8 million respectively (collectively referred to as the “**2014 Convertible Notes**”) to retire the outstanding principal amounts and accrued interests of convertible notes previously issued to these noteholders.

The 2014 Convertible Notes with principal amount of HK\$3,467,015,000 has a maturity period of five years from the issue date to 21 November 2019. It can be converted into 1 ordinary share of the Company of HK\$0.02 each for every HK\$0.87 (adjusted) convertible note at the holders’ option at any time between the issue date and the maturity date. The outstanding principal amount would be redeemed at par value on the maturity date or at the issuer’s option redeemed at par plus outstanding coupon payment at any time between the issue date and the maturity date. Interest of 3% per annum will be paid in arrears on the maturity date.

The 2014 Convertible Notes contains two components, a debt component and derivative component with a conversion option derivative of the holders and a callable option derivative of the issuer (which is immaterial in value). The effective interest rate of the debt component is 19.96%. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

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

	30 September 2017	31 March 2017
Stock price	HK\$0.23	HK\$0.26
Exercise price	HK\$0.87	HK\$0.87
Volatility (<i>Note i</i>)	84.52%	82.02%
Dividend yield	0%	0%
Option life (<i>Note ii</i>)	2.14 years	2.64 years
Risk free rate	0.91%	1%

Notes:

- (i) The volatility used in the model was determined by reference to the historical volatility of the Company’s share price.
- (ii) The option life as at 30 September 2017 was based on the maturity date of the notes.

The fair value of the 2014 Convertible Notes with embedded derivative were determined with reference to a valuation report carried out by an Independent Valuer.

No conversion took place during the six months ended 30 September 2017.

14. CONTINGENT LIABILITIES

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

The former mining contractor issued two writ of summons on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK\$93.7 million. In May 2015, the former mining contractor applied to Court to amend its statements of claim under the two writs by amending, among others, (i) the currency of the claims from Mongolian Tugrik to United States dollars; and (ii) the amount of the claim to include the alleged contractor's fees up to October 2014. According to amended statements of claim, two writ of summons make the total claims at approximately HK\$198.9 million. In April 2016, a mediation meeting between the Company and the former mining contractor was held before a mediator but the parties were unable to reach a settlement agreement, thus the mediation was terminated and the legal proceedings moved on. In September 2016, the Company received a revised statement of claim consolidating the two actions with a claim amount of approximately HK\$105.6 million from the former mining contractor, of which approximately HK\$50.0 million was provided for in the condensed consolidated financial statements as at 30 September 2017 (2016: 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 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group's principal business is coal mining and exploration which is operated by our indirect wholly-owned subsidiary in Mongolia, MoEnCo LLC ("**MoEnCo**"). Our principal project is the Khushuut Coking Coal Project in Western Mongolia. We sell coking coal and thermal coal to our customers in the People's Republic of China ("**China**" or "**PRC**") and Mongolia respectively.

During the Financial Period, we continued ramping up our production in response to the rising market conditions, though our production and export were interrupted by the import halt imposed by the Xinjiang Takeshiken customs border in late April to early June this year. Approximately 583,400 tonnes of run-of-mine ("**ROM**") coal were produced and approximately 200,400 tonnes of clean coking coal and 18,300 tonnes of thermal and raw coal were sold to our customers in China and Mongolia during this period.

RESULTS ANALYSIS

Revenue

The Group's revenue achieved a record high when compared with the previous interim financial periods. During the Financial Period, the coking coal price maintained at a relatively higher level on a year-over-year basis. In view of the favorable market conditions, the Group seized the opportunities and expanded our customer base. During the Financial Period, the Group sold approximately 200,400 tonnes (2016: 195,000 tonnes) of clean coking coal and approximately 18,300 tonnes of thermal and raw coal (2016: 3,000 tonnes of thermal coal). The total revenue was HK\$247.4 million (2016: HK\$140.3 million). The average selling prices of clean coking coal, thermal coal and raw coal net of sales tax were HK\$1,235.7 (2016: HK\$715.8), HK\$93.6 (2016: HK\$87.4) and HK\$696.3 (2016: n/a) per tonne respectively.

Cost of Sales

Cost of sales includes mining costs, coal processing costs, transportation costs and other relevant operating expenses. The cost of sales for the Financial Period was HK\$121.5 million (2016: HK\$88.7 million). It was divided into cash costs of HK\$119.1 million (2016: HK\$85.3 million) and non-cash costs of HK\$2.4 million (2016: HK\$3.4 million).

Gross Profit

Benefitting from the increase of average realised selling prices and sales volume, the Group's gross profit increased substantially to HK\$125.9 million (2016: HK\$51.5 million) with a gross profit ratio of 50.9% (2016: 36.7%).

Other Gains and Losses

The net loss recorded in other gains and losses was mainly due to the fair value loss of HK\$28.7 million arising from an investment in a listed security in Hong Kong (2016: fair value gain of HK\$5.7 million).

Administrative Expenses

Administrative expenses included the following major items: (1) Directors' remuneration and staff costs of HK\$50.3 million (2016: HK\$25.1 million). The sharp increase was mainly due to the share options granted in September 2017 where a total of HK\$21.9 million equity-settled share-based payment was recognised (2016: Nil); and (2) Legal and professional fees of HK\$10.8 million (2016: HK\$4.7 million). The sharp increase was relating to legal and professional expenses in respect of the litigation with Thiess, our former mine site contractor.

Changes in Fair Value on Derivative Component of Convertible Notes

The convertible notes issued by the Company in 2014 contain debt and conversion option components. In pursuance of the Company's accounting policies, the fair value of the conversion option components of the convertible notes shall be re-measured at the end of each reporting period. At the end of the Financial Period, an independent valuer was engaged by the Company using binomial valuation model to determine the fair value of the conversion options of the convertible notes. A resulting gain on changes in fair value of HK\$83.8 million was recognised in the Financial Period (2016: HK\$65.7 million). Please refer to Note 13 to this announcement for the major inputs into the binomial valuation model.

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. In pursuant to the recoverable amount assessment, no further impairment or reversal of impairment is required in the Financial Period (2016: Nil).

Finance Costs

The major components in the finance costs were the effective interest expense on convertible notes and interest on advances from a Director. The interest charge on the debt component of the convertible notes issued by the Company was calculated at an effective interest rate of 19.96% per annum (2016: 19.96%). The interest charge on the advances from a Director was calculated at the Hong Kong prime rate plus 3%, which was same as previous financial periods. The ongoing accumulation of interest charge in the debt component of the convertible notes and the increase in loan principal due to a Director accounted for the increase in finance costs during the Financial Period.

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. Therefore, coking coal demand is subject to volatility of steel market which is affected by the world economy. The steel market performance in China in turn affects our production and planning.

The Global crude steel production continued the rising trend in the first half of 2017. According to the recent data of the World Steel Association, global crude steel production reached approximately 1,267 million tonnes for the first nine months of 2017, rising by 5.6% year on year. China remained the world's largest crude steel production nation in the world with almost 639 million tonnes accumulated output from January to September, an increase of 6.3% compared with the same period of 2016. The surge was mainly due to the unexpected rebound of the property market investments in the first three quarters of the year, surging 8.1% year on year. The Iron and Steel Industry has been the pillar industry for China because of its rapid developments in infrastructures, real estate and the manufacturing sectors. Steel output at large-size steel firms with an annual capacity of over one million tonnes rose by 6.8% in the first seven months of 2017. Despite the overcapacity cut and the clean air environmental policies implemented by the PRC government, crude steel output of China is expected to grow continuously for the second half of the year.

According to the National Bureau of Statistics of China, China's fixed-asset investment grew 8.6% year on year in the first half of 2017, while private sector investment rose 7.2% to Renminbi 17.02 trillion yuan, accounting for 60.7% of the total. For the first nine months of 2017, fixed-asset investment grew 7.5% year on year, and down from 7.8% for the January-August period. The growth rate began to slow but the investment structure continued to improve.

Prices of coking coal remained robust in the first half of the year as a result of the country's strong steel output. According to the Chinese Customs data, coal import of China, including thermal and metallurgical coal, in the first nine months of the year rose by 13.7% year on year, reaching 204.85 million tonnes. During this period, the import of coking coal reached 52.8 million tonnes, rising by 21.5% year on year and the coking coal import value amounted to US\$7.05 billion, surging by 140.3% year on year. On the export of coking coal for the first nine months, it was only 2.1 million tonnes,

which was a relatively small figure compared to its import. The better-than-expected growth of the Gross Domestic Product (the “**GDP**”) which was standing at 6.8% in the first three quarters of the year and the implementation of coal and steel de-capacity policies have contributed to the surge in demand of coking coal.

The PRC Government is determined in environmental campaign in combating for clean air. The Ministry of Environmental Protection ordered in August that tens of thousands firms have to halve their use of diesel trucks for transport until early November. Steel mills and coal firms were scrambling for access to the already clogged rail network, causing the coking coal in short supply. Prices of coking coal remained elevated in late August as investors piled in betting on higher prices due to the capacity cuts. However, the current policy of curbing pollution also encourages steel mills to cut output, which curbs demand for coking coal. Whether the coking coal price will stay on high level will depend on China’s policies and the economic data.

Mongolia is rich in natural resources, in particular, coal. Mongolia is the second largest coking coal supplier to China, just behind Australia. Last year, 40% of China’s total coking coal imports came from Mongolia. Due to the recent rally of the coking coal price, the overcapacity cut and environmental reforms mean that the Mongolian miners would continue to benefit from the limited domestic supply of coking coal in China. For the first nine months of 2017, coal exports of Mongolia reached US\$1.73 billion, which is more than double comparing with the same period of 2016. The lack of coking coal supply domestically in China will be filled by the Mongolian imports. Mongolia coking coal export to China, therefore, is expected to increase in the second half of the year.

China’s coking coal prices are predicted to be stable in the remaining period of 2017 if no unforeseeable policies or events break out.

BUSINESS REVIEW

Coal Sales

During the Financial Period, we sold approximately 200,400 tonnes of clean coking coal (washed) (2016: 195,000 tonnes), and 13,600 tonnes of raw coking coal (unwashed) to our customers in Xinjiang, China.

Apart from coking coal, we also supplied approximately 4,700 tonnes of thermal coal to the local community in Mongolia during the Financial Period (2016: 3,000 tonnes).

Coal Production

During the Financial Period, approximately 884,000 bank cubic meters (“**BCM**”) of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works (2016: 613,300 BCM).

Production of ROM coal and thermal coal were approximately 424,900 tonnes (2016: 353,200 tonnes) and 158,500 tonnes (2016: 98,200 tonnes) respectively.

Coal Processing

During the Financial Period, approximately 381,600 tonnes of ROM coal were processed by the dry coal processing plant (2016: 348,400 tonnes), producing approximately 289,100 tonnes of raw coking coal (2016: 259,000 tonnes). The average recovery rate was 76% (2016: 74%). The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customers. In Xinjiang, approximately 264,200 tonnes of raw coking coal were processed by the washing plant, producing approximately 219,900 tonnes of clean coking coal. The average recovery rate was 83%.

Apart from the field work contractors, we hired external coal trucking companies with heavy-duty trucks to provide coal transportation services for our coal export.

Customers and Sales

As the market fundamentals had been improved during the Financial Period, we were working to expand our customer base apart from our major customer. In total, we had six customers in Xinjiang during the Financial Period.

Licences

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

Legal and Political Aspects

In the presidential run-off held in July 2017, the Mongolian voters elected the Democratic Party’s candidate, Kh. Battulga, as the President of Mongolia. Kh. Battulga was a head of the Mongolian Judo Association and a prominent businessman who also served as the Minister of Food, Agriculture and Light Industry in the past. This Democratic Party’s presidency is expected to serve a right balance to the Parliament where the majority of seats are held by the ruling Mongolian People’s Party.

The significantly diminishing foreign investment in Mongolia of 2014-2017, and declining global commodity prices forced the Mongolian Government to agree to a US\$5.5 billion economic bailout led by the International Monetary Fund (the “IMF”) in spring 2017. Such bailout, which was one of the IMF’s largest in terms of countries’ GDPs, came along with strict austerity measures imposing fiscal discipline and notable budget cuts for government social programs, rural development and infrastructure plans. The aftermath of this deal with IMF as well as the ruling Mongolian People’s Party’s defeat in the Presidential election in July 2017, led to Prime Minister’s stepping down along with the entire Cabinet in September 2017. A new Prime Minister U.Khurelsukh and his Cabinet of 13 ministers were appointed including the Minister of Mining and Heavy Industry, D.Sumyabazar who has been a Member of Parliament since 2012.

The new Minister of Mining and Heavy Industry, D.Sumyabazar issued an assignment to the Mineral Resources and Petroleum Authority of Mongolia (the “MRPAM”) to suspend the issuance of new mineral exploration licenses through the MRPAM’s online application system. He motivates his decision by numerous complaints from the license seekers ever since launching this system and the need to review the relevant regulations governing the procedures and applicable fees pertaining to this online application system. According to the Minister, the issuance will resume in mid-December, 2017, after amending the relevant regulations.

Notwithstanding the change of the Prime Minister and Cabinet members, the Mongolian government will continue its policies to stabilise its economy and attract foreign investments.

The meeting of Minister for Foreign Affairs of Mongolia and China took place in October 2017 in Ulaanbaatar to discuss the implementation of the agreement between the governments of the two countries with regard to their border ports, regimes and passing procedures. The meeting was attended by officials from both countries’ border and customs organizations responsible for the bilateral border points. The discussions aimed to increase the passing capacity of the border points, especially for Mongolian coal exports. The particular mutual focus was on expansion of the capacity of the Bulgan-Takeshiken port that should support the increase of a volume of coking coal exported from Khushuut mine. A number of measures were agreed to be implemented at this port including extension of the port’s working hours, establishing separate gates designated solely for coal trucks and facilitating the cooperation between the local customs and border service agencies of Mongolia and China. We welcome the measures which will increase the border crossing capacity on both sides and facilitate our coal export.

Legal disputes with Thiess Mongolia LLC (formerly Leighton LLC) (“Thiess”)

The two actions lodged by Thiess had been subsequently consolidated. Under the consolidated Statement of Claim, Thiess had substantially reduced its claim to US\$13.5 million (approximately HK\$105.6 million).

During the Financial Period, the parties exchanged the witness statements at the end of September 2017. The parties attended the case management conference hearing after the Financial Period held in October 2017 and the Court made the following directions:–

- (1) The Company does have leave to file and serve its Amended Defence which the Company did so by 16 October 2017;
- (2) Thiess do have leave to file and serve its Amended Reply (consequential to the amendments made in the Amended Defence) within 84 days thereafter (i.e. on or before 8 January 2018);
- (3) The parties do have leave to exchange supplemental witness statements within 56 days thereafter (i.e. on or before 5 March 2018);

- (4) The parties are to discuss and attempt to agree on the various matters relating to the expert evidence, which include the fields of expert evidence, proposed terms of reference for experts as well as further directions on the timetable for expert evidence; and
- (5) The next Case Management Conference be fixed on a date not before 3 September 2018.

We will continue to pursue the case to protect our best interests.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the Financial Period, the robust coking coal market in China leading to our achievement of satisfactory sales performance accounted for the positive cash flow from the operating activities. The borrowings of the Group as at 30 September 2017 were mainly comprised convertible notes and advances from Mr. Lo in aggregate of HK\$4,606.1 million (31 March 2017: HK\$4,375.1 million). The convertible notes are non-current liabilities and the maturity date is 21 November 2019. The advances from Mr. Lo are current liabilities. As at 30 September 2017, the cash and bank balances of the Group were HK\$85.8 million (31 March 2017: HK\$14.2 million) and the liquidity ratio was 0.23 (31 March 2017: 0.23). The Group had net current liabilities of approximately HK\$1,489.0 million (31 March 2017: HK\$1,444.6 million). Mr. Lo commits to offer his financial support to the Group during and after the Financial Period. Accordingly, 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.

Trade and Bills Receivables

As at 30 September 2017, trade receivables of HK\$81,000 (31 March 2017: HK\$216,000) were past due but not impaired. These related to a number of independent customers for whom there is no recent history of default.

Investment in a Listed Security

The decrease in carrying value of the investment in a listed security was arising from the unrealised fair value loss of HK\$28.7 million (2016: fair value gain of HK\$5.7 million).

Charge on Group's Assets

There was no charge on the Group's assets as at 30 September 2017 (2016: Nil).

Gearing Ratio

As at 30 September 2017, the gearing ratio of the Group was 6.1 (31 March 2017: 6.2) 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 (“**RMB**”) 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

The details of the Group's material contingent liabilities as at 30 September 2017 are disclosed in Note 14 to this announcement.

OUTLOOK

With the stabilization of RMB and the better-than-expected GDP growth, the economic performance of China in the first half of 2017 has been encouraging. The China GDP growth momentum is expected to continue in the second half of the year. According to the National Development and Reform Commission, the GDP growth for 2017 would possibly higher than the annual target of around 6.5%.

The global economy is also on an improving track. The growth engine is humming but there are still uncertain hurdles blocking the way in the second half of the year. For instance, the tension on the Korean Peninsula continues to grow, and the economic impacts resulting from this, like political issues, become complicated. The Brexit negotiation has shown no positive progress, a number of issues are in divergence between these major economic powers. In addition, if the US Federal Reserve rate rises aggressively, all these will affect the blooming global economies.

The China coking coal market has been performing since its gradual recovery from 2016, and if no major policies change, the market will stay stable in the existing level. Leveraging on the current market conditions, we aim to ramp up our scale of production to meet market demand and plan for more efficient export to increase our sales. We have strategically selected a location in Mongolia close to the Xinjiang border for building a new customs bonded yard. As such, we could ship our raw coal continuously from our mine site to this new customs bonded yard making full utilization of the Khushuut Road. This will increase our transport efficiency and our quantity of export. We look forward to receiving the government commissioning of this new customs bonded yard by the end of this year.

We will continue to adopt a cautious and flexible approach in our developments in response to the ever-changing market conditions.

HUMAN RESOURCES

As at 30 September 2017, excluding site and construction workers directly employed by our contractors, the Group employed 622 full-time employees in Hong Kong, Mongolia, and the PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on a periodic basis. Apart from the retirement scheme, year-end bonus, and share options are awarded to the employees according to performance of the Group, assessment of individual performance, and industry practice. Appropriate training programs are also offered for staff training and development.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Financial Period, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

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 rapid 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 Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (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 according to 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 internal policy. According to the Bye-laws of the Company, any newly appointed Directors are required to offer themselves for re-election at the next general meeting. In addition, the shareholders' right to nominate a director candidate and participation in the re-election of Director by way of poll voting at the annual general meeting ("**AGM**") can further ensure a right candidate to be selected to serve the Board.

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

The Chairman was unable to attend the 2017 AGM due to other business engagement. An executive Director took the chair of the 2017 AGM and answered questions raised by the shareholders. The AGM provides a channel for communication between the Board and the shareholders. Chairman of the Audit and Remuneration Committees of the Company was also present to answer shareholders' questions at the 2017 AGM. Other than the AGM, the shareholders may communicate with the Company through the contact methods listed on the Company's website.

COMPLIANCE WITH MODEL CODE FOR SECURITIES 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 it 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 date, no incident of non-compliance by the Directors and the relevant employees was noted by the Company for the six months ended 30 September 2017.

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 of the half year results, the period from the end of the relevant quarterly or half year period up to and including the publication date of the 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 the 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 enquiries with all the Directors by the Company, it is confirmed in writing that all the Directors had complied with the required standards as set out in the Model Code and the Code regarding directors' securities transactions during the Financial Period.

AUDIT COMMITTEE

The Audit Committee 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 of the Company had reviewed the financial statements of the Company for the six months ended 30 September 2017. Deloitte Touche Tohmatsu ("**Deloitte**"), the Company's independent auditor, had also reviewed the unaudited interim results of the Group for the Financial Period in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

Hong Kong, 29 November 2017

As at the date of this announcement, the Board comprises seven Directors, including Mr. Lo Lin Shing, Simon and Ms. Yvette Ong as executive Directors, Mr. To Hin Tsun, Gerald and Mr. Lo, Rex Cze 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.