MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

The directors (the "**Directors**") of Mongolia Energy Corporation Limited (the "**Company**") announce the condensed consolidated results of the Company and its subsidiaries (together collectively referred to as the "**Group**") for the six months ended 30 September 2016 (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 2016

		Six months ended 30 September	
	Notes	**2016** *HK$'000* **(unaudited)**	2015 *HK$'000* (unaudited)
Revenue	*3*	**140,251**	94,514
Cost of sales		**(88,746)**	(92,810)
Gross profit		**51,505**	1,704
Other income		**6,861**	1,521
Other gains and losses	*4*	**8,708**	12,060
Administrative expenses		**(44,060)**	(64,446)
Changes in fair value on derivative component of convertible notes	*13*	**65,730**	374,037
Impairment loss on available-for-sale financial asset		**(40)**	(136)
Impairment loss on amount due from associate		**(4)**	–
Finance costs	*5*	**(244,144)**	(208,176)
(Loss) profit before taxation	*7*	**(155,444)**	116,564
Income tax expense	*6*	**–**	–
(Loss) profit for the period		**(155,444)**	116,564
(Loss) profit for the period attributable to owners of the Company		**(155,444)**	116,564
(Loss) earnings per share attributable to owners of the Company	*8*		
– basic (loss) earnings per share *(HK cents)*		**(8.70)**	6.84
– diluted loss per share *(HK cents)*		**(8.70)**	(1.71)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016

	Six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss) profit for the period	**(155,444)**	116,564
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences arising on translation	**459**	61
Total comprehensive (expense) income for the period	**(154,985)**	116,625

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2016

	Notes	30 September 2016 HK$'000 (unaudited)	31 March 2016 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	9	**256,591**	258,220
Intangible assets	9	**27,152**	27,920
Exploration and evaluation assets	10	**–**	–
Interests in associates		**–**	–
Available-for-sale financial asset		**–**	–
Other asset		**1,150**	1,150
Prepaid lease payment		**496**	513
		285,389	287,803
Current assets			
Prepaid lease payment		**11**	15
Inventories		**40,214**	22,802
Trade and bill receivables	11	**99,482**	29,711
Other receivables, prepayments and deposits		**21,824**	22,329
Held-for-trading investments		**123,463**	117,797
Amounts due from associates		**–**	–
Cash and cash equivalents		**18,346**	19,237
		303,340	211,891
Current liabilities			
Trade payables	12	**129,476**	129,204
Other payables and accruals		**137,253**	140,942
Advances from a Director		**1,492,579**	1,383,023
Other loan		**7,756**	–
Deferred income		**1,358**	1,345
		1,768,422	1,654,514
Net current liabilities		**(1,465,082)**	(1,442,623)
Total assets less current liabilities		**(1,179,693)**	(1,154,820)
Non-current liabilities			
Convertible notes	13	**2,718,314**	2,587,653
Deferred income		**9,862**	10,411
		2,728,176	2,598,064
Net liabilities		**(3,907,869)**	(3,752,884)
Financed by:			
Capital and reserves			
Share capital		**35,735**	35,735
Reserves		**(3,943,604)**	(3,788,619)
Equity attributable to owners of the Company		**(3,907,869)**	(3,752,884)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as with 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$3,907.9 million and had net current liabilities of approximately HK$1,465.1 million at 30 September 2016 and incurred a loss of approximately HK$155.4 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 with maturity date on 30 March 2018, of which approximately HK$407.4 million was unutilised as at 30 September 2016. 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.

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

HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2016.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the energy and related resources business. Revenue represents revenue 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 2016

	Coal mining	**Total**
	HK$'000	***HK$'000***
Segment revenue	**140,251**	**140,251**
Segment profit	**42,903**	**42,903**
Unallocated expenses *(Note)*		**(25,710)**
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)**
Finance costs		**(243,997)**
Loss before taxation		**(155,444)**

Note:

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

For the six months ended 30 September 2015

	Coal mining	Total
	HK$'000	*HK$'000*
Segment revenue	94,514	94,514
Segment loss	(27,536)	(27,536)
Unallocated expenses *(Note)*		(40,056)
Other gains and losses		18,431
Changes in fair value on derivative component of convertible notes		374,037
Impairment loss on available-for-sale financial asset		(136)
Finance costs		(208,176)
Profit before taxation		116,564

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 2016	31 March 2016
	HK$'000	*HK$'000*
Coal mining	**447,721**	361,355

4. OTHER GAINS AND LOSSES

	Six months ended 30 September 2016 HK$'000	2015 HK$'000
Changes in fair value on held-for-trading investments	**5,666**	18,423
Gain on disposal of property, plant and equipment	**93**	621
Loss on write off of property, plant and equipment	**(8)**	(23)
Net exchange gain (loss)	**2,957**	(421)
Early termination cost for a contractor *(Note)*	**–**	(7,800)
Others	**–**	1,260
	8,708	12,060

Note:

The Group issued a notice of termination to the overburden removal contractor on 25 May 2015. Based on the Group's Mongolian legal advice, the Group was required to pay approximately HK$7.8 million indemnity to the overburden removal contractor if the Group terminated the contract for convenience under the overburden removal services agreement.

5. FINANCE COSTS

	Six months ended 30 September 2016 HK$'000	2015 HK$'000
Interest on advances from a Director	**47,606**	44,533
Interest on other loan *(Note)*	**147**	–
Effective interest expense on convertible notes	**196,391**	163,643
	244,144	208,176

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.

6. INCOME TAX EXPENSE

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

PRC Enterprise Income Tax was provided at the applicable enterprise income tax rate of 25% on the estimated assessable profits of the Group's PRC subsidiaries (if any) 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 in the current period 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.

No provision for Hong Kong and oversea taxation had been made in the last period as the Group had no assessable profit for the last period.

7. (LOSS) PROFIT BEFORE TAXATION

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

	Six months ended 30 September 2016 HK$'000	2015 HK$'000
Amortisation of intangible assets	**830**	2,155
Depreciation of property, plant and equipment	**5,837**	10,570
Less: amortisation and depreciation capitalised in inventories	**(2,249)**	(9,183)
	4,418	3,542
Rental income (net of negligible outgoing)	**–**	(894)
Employee benefit expenses, including Directors' emoluments (net of reimbursement from a related party)	**40,307**	53,277
Less: employee benefit expenses capitalised in inventories	**(15,192)**	(13,997)
	25,115	39,280
Operating lease rentals in respect of office premises (net of reimbursement from a related party)	**1,448**	3,516

8. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 September 2016 HK$'000	2015 HK$'000
(Loss) profit attributable to owners of the Company, as used in the calculation of basic (loss) earnings per share	**(155,444)**	116,564
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**–**	163,643
Changes in fair value on derivative component of convertible notes	**–**	(374,037)
Loss for the purpose of diluted loss per share	**(155,444)**	(93,830)

	Six months ended 30 September 2016 '000	2015 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**1,786,758**	1,704,451
Effect of dilutive potential ordinary shares:		
Convertible notes	**–**	3,779,583
Weighted average number of ordinary shares for the purpose of diluted loss per share	**1,786,758**	5,484,034

Note:

The computation of diluted loss per share for the current period does 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.

The computation of diluted loss per share for prior period does not assume the exercise of share options since their exercise prices exceed the average share price of the Company during the prior period.

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

Property, Plant and Equipment

During the six months ended 30 September 2016, the Group spent approximately HK$1,647,000 (2015: HK$16,817,000), HK$436,000 (2015: HK$1,103,000), HK$1,745,000 (2015: HK$2,104,000) and nil (2015: HK$9,510,000) on mining structures, construction in progress, plant, machinery and other equipment and leasehold improvements 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 the six months ended 30 September 2016 (2015: Nil).

Impairment Loss Recognised 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 prepaid lease payment related to the Khushuut mine operations (collectively referred to as "**Khushuut Related Assets**"). For the purposes of impairment testing, 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.

The Directors instructed the Independent Valuer to use the information and assumptions provided by the mining contractor, including cost structure and production capacity of the Khushuut Related Assets. In pursuant to the impairment review, no impairment is required during the current interim period (2015: Nil).

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**"), a 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 2016, according to our latest Mongolian legal opinion, the MRPAM confirmed that no mining concession (At 31 March 2016: Nil) owned by MoEnCo overlapped with protected area under the MPL.

10. EXPLORATION AND EVALUATION ASSETS

	Mining and exploration rights *(Note a)* *HK$'000*
COST	
At 1 April 2015, 31 March 2016 and 30 September 2016	–

Notes:

(a) The mining and exploration rights 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**"), a 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 have confirmed that their interpretation of the relevant legislation is 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 2016.

As at 31 March 2016 and 30 September 2016, only limited exploration works were done on the iron ore concession. During the year ended 31 March 2015, the conditions of the iron ore market in China has become 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 sentiments, the development and production costs are expected to be high which will be 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, the 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, the 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 2017.

Also, based on the research performed by the 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). The 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 2016, 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.

(b) 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 BILL RECEIVABLES

The following is an aged analysis of trade and bill receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	30 September 2016 HK$'000	31 March 2016 HK$'000
0 to 30 days	**79,265**	11,526
31 to 60 days	**17,098**	–
61 to 90 days	**2,469**	3,349
Over 90 days	**650**	14,836
	99,482	29,711

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 2016 HK$'000	31 March 2016 HK$'000
0 to 30 days	**38,478**	5,312
31 to 60 days	**–**	255
61 to 90 days	**1,581**	–
Over 90 days	**89,417**	123,637
	129,476	129,204

13. CONVERTIBLE NOTES

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

	Debt component		Derivative component		Total	
	30 September 2016 HK$'000	31 March 2016 HK$'000	30 September 2016 HK$'000	31 March 2016 HK$'000	30 September 2016 HK$'000	31 March 2016 HK$'000
At beginning of the period/year	**2,053,436**	1,710,523	**534,217**	1,181,324	**2,587,653**	2,891,847
Interest charge	**196,391**	342,913	**–**	–	**196,391**	342,913
Changes in fair value on derivative component	**–**	–	**(65,730)**	(647,107)	**(65,730)**	(647,107)
At end of the period/year	**2,249,827**	2,053,436	**468,487**	534,217	**2,718,314**	2,587,653

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. 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.

14. CONTINGENT LIABILITIES

During the year ended 31 March 2013, the Company and MoEnCo disputed the services provided by the former mining contractor and disagreed on the amount charged and the quality of services provided under the former mining contract 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 2016 (2015: HK$50.0 million). The Company has filed a consolidated defence and 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 (2015: 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 our tightening measures and careful planning in our operation and production in response to the stringent market conditions, though coal price surged at the end of this period along with other positive economic signs. Approximately 451,400 tonnes of run-of-mine ("**ROM**") coal were produced and approximately 198,000 tonnes of coal were sold to our customers during this period.

RESULTS ANALYSIS

Revenue

During the Financial Period, the average coking coal selling prices achieved by the Group recorded a rebound of approximately 9.1% when compared to last financial year. The Group sold approximately 195,000 tonnes of clean coking coal to our end users in Xinjiang, PRC and approximately 3,000 tonnes of thermal coal to customers in Mongolia. The total revenue was HK$140.3 million (2015: HK$94.5 million). The average selling price net of sales tax of clean coking coal was HK$715.8 per tonne (2015: HK$638.7) and thermal coal was HK$87.4 per tonne (2015: HK$166.2).

Cost of Sales

The cost of sales for the Financial Period was HK$88.7 million (2015: HK$92.8 million). It was divided into cash costs of HK$85.3 million (2015: HK$83.2 million) and non-cash costs of HK$3.4 million (2015: HK$9.6 million). The overburden removal works were recommenced since July 2016.

Gross Profit

The gross profit for the Financial Period was HK$51.5 million (2015: HK$1.7 million) with a gross profit ratio of 36.7% (2015: 1.8%). The significant improvement in gross profit ratio was mainly due to the achievement of economies of scale in view of the increase in both of the production and sales volume as well as improvement in the pricing of coking coal.

Other Income

The increase of other income when compared to last corresponding period was mainly due to a one-off earning from the disposal of scrapped inventory in our Xinjiang washing plant.

Other Gains and Losses

The decrease in other gains and losses during the Financial Period when compared to last corresponding period was mainly due to the combined net effect of (i) lower fair value gain from investment in listed securities in Hong Kong as compared to last corresponding period and (ii) a one-off early termination cost for a contractor of HK$7.8 million was provided in 2015. This provision amount was agreed with the contractor during the Financial Period.

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$65.7 million was recognised in the Financial Period (2015: HK$374.0 million).

Finance Costs

The major component in the finance costs was the effective interest expense on convertible notes. Such 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.

MARKET REVIEW

The principal market for our coking coal products is China. We also sell thermal coal for domestic use in Mongolia.

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 in turn affected by the world economy. The steel market performance in China in turn affects our production and planning.

Over the past few years, China cut down its coal production capacity in order to trim industrial oversupply and curb pollution. Such policy suffocated the coal mining and production industry. Coal prices were hanging at a low level for a long time, causing many steel and coal miners struggled for survival in the industry. Recently, the coal prices recorded a rebound after five years of declines as demand for metallurgical coal has been boosted by the country's rising steel output.

According to the recent data of the World Steel Association, global crude steel production was 132.9 million tonnes in September 2016, rising by 2.0% year on year. For China, its crude steel production for September 2016 was 68.2 million tonnes, an increase of 3.9% compared to September 2015. In October 2016, crude steel production maintained at 68.51 million tonnes. From January to September this year, China's crude steel output rose slightly by 0.4% from the year-ago level to 603.78 million tonnes. The increase was mainly due to strong demand from end users boosted by the state planner's approval of a bunch of infrastructure construction projects such as road, railways and bridges.

In addition, the policy of capping mining output to 276-day a year had also been relaxed for some producers. The National Development and Reform Commission of China had allowed selected “advanced” and “high efficiency” miners to raise coal production from October 2016, though other mines must still comply with the 276-workday strictly. These are the positive signs which we believe that the coal market is gradually on the track of recovery.

In September 2016, coking coal output of China rose by 7.3% to 39.29 million tonnes from a year earlier, taking production for the first nine months of the year to 331.74 million tonnes, fell by 1.6% from the same period in 2015. The National Bureau of Statistics of China (the “**NBS**”) said the limited supply of coking coal pushed up its price.

According to the General Administration of Customs of the PRC, China’s coking coal imports surged by 40.5% year on year to 5.56 million tonnes in September 2016, after the highest monthly figure in August 2016 since July 2015. The rise was due to the strong demand from coke and steel makers as a result of soaring coke and steel prices. From January to August this year, China’s coking coal imports rose by 17.5% year on year to 37.94 million tonnes, with an import value of US$2.52 billion representing a fall of 7.5% year on year. While Australia is China’s biggest supplier, meeting almost half of the coking coal import demand, the second biggest source is Mongolia. According to the Statistic Bureau of Mongolia, Mongolia exported 13.7 million tonnes of coal from January to August this year, rising by 42% year on year and hitting a new high in the past seven years, with the value of US$421 million.

In respect of export for the first eight months this year, China exported 870,000 tonnes of coking coal, rising 40.3% from previous year, with a total value surge of 10.4% on year.

According to the statistics released by the NBS in October this year, China’s gross domestic product expanded by 6.7% in the third quarter of 2016 over a year earlier. Analysts said the figures would help the country meet the growth target of at least 6.5% in 2016. The information supports stability of the steel and coking coal market in China in the second half of this year.

BUSINESS REVIEW

Coal Sales

During the Financial Period, we sold approximately 195,000 tonnes of clean coking coal (after washing) to our customers in Xinjiang, PRC (2015: 146,400 tonnes).

Apart from the clean coking coal, we supplied approximately 3,000 tonnes of thermal coal to the local community in Mongolia during the Financial Period (2015: 6,600 tonnes).

Coal Production

During the Financial Period, approximately 613,300 bank cubic meters (BCM) of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works.

Production of ROM coal and thermal coal were approximately 353,200 tonnes and 98,200 tonnes respectively.

Coal Processing

During the Financial Period, approximately 348,400 tonnes of ROM coal were processed by the dry coal processing plant, producing approximately 259,000 tonnes of raw coking coal. The average recovery rate was 74%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customer.

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. Approximately 206,800 tonnes of processed raw coking coal were shipped from the Khushuut Coal Mine to our coal washing plant in Xinjiang during the Financial Period.

Customers and Sales

Due to the economic slowdown and our prudent production policy, we did not actively expand our customer base during the Financial Period. As the market conditions have become better, we will look for new potential customers as when opportunity arises.

Licence Matters

Currently, we have maintained nine mining licences, of which eight are for our Khushuut operations, and one exploration licence is for ferrous resources in Bayan-Ulgii, Mongolia. Please refer to our recent annual report for details.

Legal and Political Aspects

2016 was a parliamentary election year for Mongolia. In the parliamentary election held on 29 June 2016, the main opposition Mongolian People's Party ("**MPP**") came back to power with a landslide victory, winning 85% of the parliamentary seats.

According to the newly appointed Minister of Mining and Heavy Industry, Mongolia's mining and extractive industry made up 16.7% of gross domestic product, 87% of export and 55% of domestic manufacturing for 2015. The mining sector investment plays a significant role in the Mongolian economy.

Having realised the importance of the mining industry to the country's economy, the MPP-led Parliament created a new agency in charge of matters pertaining to the country's mineral resources: the Mineral Resources and Petroleum Authority of Mongolia ("**MRPAM**") by merging the former Mineral Resources Authority and Petroleum Agency.

The newly elected government submitted to the Parliament of Mongolia its Action Plan for its tenure of 2016-2020 which was approved in September 2016. The Action Plan is divided into four chapters: economic policy, social policy, environmental and green development policy, and governance policy. Main highlight of the Action Plan is the economic policy which is divided into two stages. The first stage is "special policy to overcome economic downturn" which aims to overcome Mongolia's economic difficulties in the short run, attract domestic and foreign investments, and relieve economic pressure on citizens and corporations by creating a more favorable business environment. The second stage is "sustainable economic growth policy" which focuses on increasing domestic production and exports through customs and tax policies as well as by simplifying the process, and creating a legal environment which encourages fair competition between businesses while protecting consumers' rights, with a view to achieving sustainable growth of the Mongolian economy.

Support will be provided to all types of businesses under the Action Plan. It emphasizes that a favorable environment for investment in the geology and mining sector will be created to achieve sustainable growth of the mining sector and competitiveness of Mongolia in the international minerals market. State interference in mining will be kept at an appropriate level, and coal processing and washing will be supported by the Mongolian government.

In order to support economic growth, road, transportation and logistics networks will be expanded throughout the country. Production capacity of the current power plants will be increased and new power plants will be constructed to meet the growing demand of energy. The prices of heating and electricity are expected to be stabilized and decreased while new technology will also be introduced for efficient use of energy in the future. The Mongolian government is keen to provide a better environment for foreign trade by increasing the benefits and improving the infrastructure of border ports to facilitate ease of cross border trade.

The Parliament understood that apart from attracting international investors, it was equally important to promote investors' relations and protect their investment interests. Accordingly, in addition to the existing Invest Mongolia Agency, the Cabinet Administration set up a council for the purpose of protecting investors' interests. This council has been given the responsibility of keeping a watch on issues with potential to harm investors' rights, including illegal threats by a government organization, bureaucracy, unnecessary investigation or unilateral decision.

Furthermore, in order to bring Mongolia on track to international dispute resolution, and to ensure the conformity of the Mongolian arbitral and juridical procedures with the international arbitration practices and treaties, the Mongolian government is currently discussing a new edition of the Law on Arbitration of Mongolia.

Legal Proceedings with Contractors

The following are the major disputes with our contractors:

*With Thiess Mongolia LLC ("**Thiess**") (formerly Leighton LLC)*

Two writs of summons were taken out by Thiess in 2013 claiming the Company for MNT12.2 billion (approximately HK$57.3 million) and MNT7.7 billion (approximately HK$36.4 million) respectively.

In May 2015, Thiess applied to the court to amend its Statements of Claim under the two writs according to its amended Statements of Claim,

(i) the amount of the first writ claimed has changed from MNT12.2 billion (approximately HK$57.3 million) to US$9.04 million (approximately HK$70.1 million); and

(ii) the amount of the second writ claimed has changed from MNT7.7 billion (approximately HK$36.4 million) to US$16.6 million (approximately HK$128.8 million).

The mediation between the Company and Thiess was held before a mediator in April 2016, but the parties were unable to settle due to divergence of views.

The whole mediation process finally reached an impasse. As we did not accept the proposed settlement amount by Thiess, the mediation was terminated and the proceedings moved on.

Thiess had subsequently requested to consolidate the two actions filed by it. As the two actions were both related to claims arising out of one contract, and after taking advice from legal adviser, we agreed with Thiess to consolidate the two proceedings. Procedurally, Thiess was required to file a consolidated Statement of Claim and we were required to file a consolidated Defence.

Following the court's directions, we had received Thiess's consolidated Statement of Claim. Under the consolidated Statement of Claim, Thiess had now substantially reduced its claim to US$13,544,460.27 by giving up its alleged service fees after October 2012. We filed our consolidated Defence in November 2016.

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

With a Xinjiang Contractor

MoEnCo used to have a Chinese contractor (SJ) in Xinjiang to provide coal washing and blending services for MoEnCo for three years. The contract was signed between MoEnCo and SJ in June 2012. The co-operation was unsatisfactory and SJ terminated the contract and lodged an arbitration application against MoEnCo and the Company for a claim of approximately RMB32 million (approximately HK$40 million), being refund of the payment it made in advance on behalf of MoEnCo (mainly tax, levy, and other costs incurred in the PRC) and loss of profit, together with interest, etc. for breach of contract.

MoEnCo and the Company objected to the claims by SJ. The arbitration was initially heard in November 2014 and was further heard in January 2015. The award was granted in favour of SJ against the Company for approximately RMB16.1 million (approximately HK$19.3 million), being approximately RMB11.2 million payment in advance and RMB3.3 million loss in processing fees and other miscellaneous charges. The amount of the award is interest bearing until settlement.

Under the award, while MoEnCo was the party to the contract of dispute, but the Company had been ruled as the principal party to the contract and be held mainly responsible for the award payment instead of MoEnCo. The Company received an order of the Hong Kong court in April 2016 granting leave to SJ to enforce the award against the Company and MoEnCo in Hong Kong. The Company had instructed its legal counsels to set aside the court order which was heard in September 2016. The decision was recently handed down by the court and it was granted in favour of SJ to enforce the arbitral award against the Company. We are taking legal advice from our legal counsel in relation to the possibility of appeal. The Company had made a provision of approximately HK$21.0 million in respect of the claims.

OTHERS

Mr. Peter Pun *OBE, JP* ("**Mr. Pun**"), an independent non-executive director, a member of both the audit committee and the remuneration committee of the Company, passed away on 6 September 2016 due to illness. We express our thankfulness to Mr. Pun of his past contributions to the Company and our deepest condolences to his family.

On 21 October 2016, the Company appointed Mr. Lo, Rex Cze Kei as a non-executive Director and Mr. Lee Kee Wai, Frank as an independent non-executive Director, a member of the audit committee and the remuneration committee of the Company. The details of the newly appointed Directors were announced on 24 October 2016.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the Financial Period, the cash shortfall from the operating activities was mainly covered by short term loans granted by Mr. Lo.

The borrowings of the Group as at 30 September 2016 mainly comprised convertible notes and advances from Mr. Lo in aggregate of HK$4,210.9 million (31 March 2016: HK$3,970.7 million). The convertible notes are non-current liabilities and the mature date is 21 November 2019. The advances from Mr. Lo are current liabilities.

As at 30 September 2016, the cash and bank balances of the Group were HK$18.3 million (31 March 2016: HK$19.2 million) and the liquidity ratio was 0.17 (31 March 2016: 0.13).

The Group had net current liabilities of approximately HK$1,465.1 million (31 March 2016: HK$1,442.6 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 Bill Receivables

The increase in sales volume during the Financial Period accounted for the sharp increase in trade and bill receivables balances as at 30 September 2016. Based on the aging analysis, 79.7% of the outstanding balances were aged within one month. No bad and doubtful debts were identified by the management of the Group during the Financial Period.

Investment in Listed Securities

The increase in carrying value of the investment in listed securities was arising from the unrealised fair value gain of HK$5.7 million (2015: HK$18.4 million).

Charge on Group's Assets

There was no charge on the Group's assets as at 30 September 2016.

Gearing Ratio

As at 30 September 2016, the gearing ratio of the Group was 7.2 (31 March 2016: 7.9) which was calculated based on the Group's total borrowings to total assets.

Foreign Exchange

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

Contingent Liabilities

The details of the Group's material contingent liabilities as at 30 September 2016 are disclosed at note 14 to this announcement.

OUTLOOK

Recent information reveals a rebound of the steel and coking coal markets in China, with the manufacturing sector expanding and the property market booming, leading to a higher coal consumption. Coal producers are now striving to increase their production capacity in response to the surging market.

The unexpected, yet welcome price rally in the second half of the year has been applauded by many coking coal miners. China's coking coal demand has increased markedly. Some analysts expected that China might ease restrictions on coking coal production, to mirror what it is doing for thermal coal, in the face of the current shortage of coking coal supply. In short term and before any relaxation policy on production of coking coal, we forecast China's imports of coking coal would continue to increase, and prices would remain at elevated levels.

Benefiting from the current market conditions, the quantity of our coking coal sale during this Financial Period increased 33.2% compared to the stagnant performance in the same period last year. We believe the rise in coking coal prices will have positive impact in our coming sales. We will also strive to expand our customer base in the present market sentiments.

The short term is optimistic. However, the global economy is still precarious, for example, the continuous fall of the RMB exchange rate to the US dollar may have negative impact on our income as part of revenues are received in RMB. We, as many other firms of the sector, will carefully plan our scale of operation in the coming year to achieve a best result for us in response to this ever-changing market.

HUMAN RESOURCES

As at 30 September 2016, excluding site workers directly employed by our contractors, the Group employed 570 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

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 meetings ("**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 2016 AGM due to other business engagement. The Managing Director of the Company took the chair of the 2016 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 2016 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 2016.

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 by the Company, all the Directors have confirmed in writing that they had complied with the required standards 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*, Mr. Peter Pun *OBE, JP* (deceased and ceased to be an independent non-executive Director on 6 September 2016) and Mr. Lee Kee Wai, Frank (appointed on 21 October 2016). 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 2016. Deloitte Touche Tohmatsu ("**Deloitte**") as the Company's auditor had reviewed the unaudited interim results of the Group for the Financial Period under review 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 2016

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.