# MONGOLIA ENERGY CORPORATION LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 276)**

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2017

The board of directors (the "**Board**") of Mongolia Energy Corporation Limited (the "**Company**") announces the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 March 2017 (the "**Financial Year**") together with the comparative figures in the previous year as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 March 2017*

| | *Notes* | **2017** *HK$'000* | 2016 *HK$'000* |
|---|---|---|---|
| Revenue | *4* | **321,893** | 156,701 |
| Cost of sales | | **(198,482)** | (139,717) |
| Gross profit | | **123,411** | 16,984 |
| Other income | | **10,607** | 3,717 |
| Other gains and losses | *5* | **50,939** | 40,524 |
| Administrative expenses | | **(100,706)** | (145,396) |
| Changes in fair value on derivative component of convertible notes | *14* | **235,971** | 647,107 |
| Impairment loss on property, plant and equipment | *3* | **–** | (613,317) |
| Impairment loss on intangible assets | *3* | **–** | (68,216) |
| Impairment loss on prepaid lease payment | *3* | **–** | (1,323) |
| Impairment loss on available-for-sale financial asset | | **(77)** | (165) |
| Impairment loss on amount due from associate | | **(8)** | (8) |
| Finance costs | *6* | **(524,984)** | (433,362) |
| Loss before taxation | *7* | **(204,847)** | (553,455) |
| Income tax expense | *8* | **–** | – |
| **Loss for the year** | | **(204,847)** | (553,455) |
| **Loss for the year attributable to owners of the Company** | | **(204,847)** | (553,455) |
| **Loss per share attributable to owners of the Company** | | | |
| – basic and diluted loss per share (HK$) | *10* | **(0.11)** | (0.32) |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 March 2017*

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss for the year | **(204,847)** | (553,455) |
| Other comprehensive income | | |
| Item that may be reclassified subsequently to profit or loss: | | |
| – Exchange differences on translating foreign operations | **2,085** | 42 |
| Total comprehensive expense for the year attributable to owners of the Company | **(202,762)** | (553,413) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 March 2017*

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **256,115** | 258,220 |
| Intangible assets | | **26,473** | 27,920 |
| Development in progress | | **–** | – |
| Exploration and evaluation assets | *11* | **156** | – |
| Interests in associates | | **–** | – |
| Available-for-sale financial asset | | **–** | – |
| Other asset | | **1,150** | 1,150 |
| Prepaid lease payment | | **477** | 513 |
| | | **284,371** | 287,803 |
| **Current assets** | | | |
| Prepaid lease payment | | **10** | 15 |
| Trade and bill receivables | *12* | **159,586** | 29,711 |
| Inventories | | **62,722** | 22,802 |
| Other receivables, prepayments and deposits | | **34,761** | 22,329 |
| Held-for-trading investments | | **156,713** | 117,797 |
| Amounts due from associates | | **–** | – |
| Cash and cash equivalents | | **14,197** | 19,237 |
| | | **427,989** | 211,891 |
| **Current liabilities** | | | |
| Trade payables | *13* | **102,989** | 129,204 |
| Other payables and accruals | | **147,403** | 140,942 |
| Advances from a Director | | **1,613,067** | 1,383,023 |
| Other loan | | **7,755** | – |
| Deferred income | | **1,352** | 1,345 |
| | | **1,872,566** | 1,654,514 |
| **Net current liabilities** | | **(1,444,577)** | (1,442,623) |
| **Total assets less current liabilities** | | **(1,160,206)** | (1,154,820) |
| **Non-current liabilities** | | | |
| Convertible notes | *14* | **2,761,989** | 2,587,653 |
| Deferred income | | **9,196** | 10,411 |
| | | **2,771,185** | 2,598,064 |
| **Net liabilities** | | **(3,931,391)** | (3,752,884) |
| **Financed by:** | | | |
| **Capital and reserves** | | | |
| Share capital | | **37,625** | 35,735 |
| Reserves | | **(3,969,016)** | (3,788,619) |
| **Equity attributable to owners of the Company** | | **(3,931,391)** | (3,752,884) |

## 1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the principal place of business of the Company is 17th Floor, 118 Connaught Road West, Hong Kong.

The Company acts as an investment holding company and its subsidiaries (together with the Company collectively referred to as the "**Group**") are principally engaged in (i) mining, processing and sale of coal; and (ii) other resources related business.

The consolidated financial statements are presented in Hong Kong dollar ("**HK$**"). The functional currency of the Company is United States dollar ("**US$**") as the US$ better reflects the underlying transactions, events and conditions that are relevant to the Group's ongoing business. For the convenience of the financial statements users, the consolidated financial statements are presented in HK$, as the Company's shares are listed on the Stock Exchange.

In preparing the consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration to the future liquidity of the Group. While recognising that the Group had net liabilities of approximately HK$3,931.3 million and had net current liabilities of approximately HK$1,444.6 million at 31 March 2017 and incurred a loss of approximately HK$204.8 million for the year then ended, the Directors of the Company 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 29 March 2019, of which approximately HK$286.9 million was unutilised as at 31 March 2017 and Mr. Lo does not intend to demand repayment until the Company has sufficient cash to make repayment. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (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 |

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### HKAS 1 (Amendments) "Disclosure Initiative"

The Group has applied the amendments to HKAS 1 "Disclosure Initiative" for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. The grouping and ordering of certain notes have been revised to give prominence to the areas of the Group's activities that management considers to be the most relevant to an understanding of the Group's financial performance and financial position. Specifically, information to capital risk management was reordered to Note 36 to the annual report while information to financial instruments was reordered to Note 37 to the annual report. Other than the above presentation and disclosure changes, the application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

The Group has not early applied the following new and revised standards and amendments that have been issued but are not yet effective:

| | |
|---|---|
| HKAS 7 (Amendments) | Disclosure Initiative[1] |
| HKAS 12 (Amendments) | Recognition of Deferred Tax Assets for Unrealised Losses[1] |
| HKAS 40 (Amendments) | Transfers of Investment Property[2] |
| HKFRSs (Amendments) | Annual Improvements to HKFRSs 2014-2016 Cycle[5] |
| HKFRS 2 (Amendments) | Classification and Measurement of Share-based Payment Transactions[2] |
| HKFRS 4 (Amendments) | Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*[2] |
| HKFRS 9 | Financial Instruments[2] |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments[2] |
| HKFRS 16 | Leases[3] |
| HK (IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration[2] |

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 Effective for annual periods beginning on or after a date to be determined
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

**HKFRS 9 "Financial Instruments"**

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial Instruments: Recognition and Measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The application of HKFRS 9 in the future may have material impacts on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as fair value through other comprehensive income (subject to fulfillment of the designation criteria). The expected credit loss model may result in early provision losses which are not yet incurred in relation to Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

**HKFRS 15 "Revenue from Contracts with Customers"**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the Directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

**HKFRS 16 "Leases"**

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modification, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 March 2017, the Group as lessee has non-cancellable operating lease commitments of HK$1,689,000 as disclosed in Note 33 to the annual report. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

**HKAS 7 (Amendments) "Disclosure Initiative"**

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively to the Group for annual period beginning on 1 April 2017. The application of the amendments 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 on application.

Other than that, the Directors of the Company anticipate that the application of other new and amendments to HKFRSs will have no material impact on the consolidated financial statements of the Group.

## 3. RECOVERABLE AMOUNT ASSESSMENT ON KHUSHUUT RELATED ASSETS

At the end of the reporting period, the Group engaged a qualified professional valuer (the "**Independent Valuer**"), who is not connected with the Group, to determine the recoverable amount of its property, plant and equipment, intangible assets and prepaid lease payment related to the Khushuut mine operations (collectively referred to as "**Khushuut Related Assets**"). For the purposes of recoverable amount assessment to assess whether there have been reversal or further impairment, the Khushuut Related Assets are treated as a cash-generating unit, which represents the Group's coking coal mining operation in Western Mongolia. The recoverable amount of the Khushuut Related Assets has been determined based on a value-in-use calculation.

*For the year ended 31 March 2017*

| | **Carrying values**<br>***HK$'000*** |
|---|---|
| Property, plant and equipment | **250,934** |
| Intangible assets | **26,166** |
| Prepaid lease payment | **487** |
| Total | **277,587** |

In pursuant to the recoverable amount assessment, no impairment is required in the current year (2016: impairment loss HK$682,856,000) as the recoverable amount of the Khushuut Related Assets is higher than their carrying values. Considering that the global economy is still precarious and the uncertainty on coking coal market condition, the Directors of the Company are of the opinion that there is no reversal of impairment loss recognised in prior years.

*For the year ended 31 March 2016*

| | Carrying values before impairment *HK$'000* | Impairment loss *HK$'000* | Carrying values after impairment *HK$'000* |
|---|---|---|---|
| Property, plant and equipment | 857,816 | 613,317 | 244,499 |
| Intangible assets | 95,409 | 68,216 | 27,193 |
| Prepaid lease payment | 1,851 | 1,323 | 528 |
| Total | 955,076 | 682,856 | 272,220 |

The reasons for such impairment being recognised in profit or loss during the year ended 31 March 2016 were mainly due to (i) a further decline in price of coking coal and the price outlook as compared to that of previous financial year ended 31 March 2015; and (ii) the demand of coking coal which is essential for the production of steel continued to be low due to the cooling down in infrastructure and real estate investments. This has caused an unfavourable coking coal market condition. All these reasons have had significant impact on the value-in-use assessment performed by the Directors with a reduction in cash flows expected to be received.

## 4. 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 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 year ended 31 March 2017*

| | **Coal mining** ***HK$'000*** | **Total** ***HK$'000*** |
|---|---|---|
| Segment revenue | **321,893** | **321,893** |
| Segment profit | **101,343** | **101,343** |
| Unallocated expenses *(Note)* | | **(56,065)** |
| Other income | | **16** |
| Other gains and losses | | **38,591** |
| Changes in fair value on derivative component of convertible notes | | **235,971** |
| Impairment loss on available-for-sale financial asset | | **(77)** |
| Impairment loss on amount due from associate | | **(8)** |
| Finance costs | | **(524,618)** |
| Loss before taxation | | **(204,847)** |

*For the year ended 31 March 2016*

| | Coal mining | Total |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Segment revenue | 156,701 | 156,701 |
| Segment loss | (754,412) | (754,412) |
| Unallocated expenses *(Note)* | | (62,122) |
| Other income | | 4 |
| Other gains and losses | | 49,503 |
| Changes in fair value on derivative component of convertible notes | | 647,107 |
| Impairment loss on available-for-sale financial asset | | (165) |
| Impairment loss on amount due from associate | | (8) |
| Finance costs | | (433,362) |
| Loss before taxation | | (553,455) |

*Note:*

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

The accounting policies of the operating segment are the same as the Group's accounting policies described in Note 4 to the annual report. Segment profit (loss) represents the profit (loss) from the coal mining operation without allocation of expenses not directly related to the operating segment, unallocated other income, finance costs, change in fair value of held-for-trading investments and derivative component of convertible notes, impairment loss on available-for-sale financial asset and amount due from associate. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and performance assessment.

**Segment assets and liabilities**

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

*As at 31 March 2017*

| | ***HK$'000*** |
|---|---|
| **ASSETS** | |
| Segment assets – coal mining | **541,000** |
| Held-for-trading investments | **156,713** |
| Cash and cash equivalents | **9,597** |
| Other unallocated assets *(Note (a))* | **5,050** |
| Consolidated total assets | **712,360** |
| **LIABILITIES** | |
| Segment liabilities – coal mining | **218,017** |
| Convertible notes | **2,761,989** |
| Advances from a Director | **1,613,067** |
| Other unallocated liabilities *(Note (b))* | **50,678** |
| Consolidated total liabilities | **4,643,751** |

*As at 31 March 2016*

| | HK$'000 |
|---|---|
| **ASSETS** | |
| Segment assets – coal mining | 361,355 |
| Held-for-trading investments | 117,797 |
| Cash and cash equivalents | 9,841 |
| Other unallocated assets *(Note (a))* | 10,701 |
| Consolidated total assets | 499,694 |
| **LIABILITIES** | |
| Segment liabilities – coal mining | 234,239 |
| Convertible notes | 2,587,653 |
| Advances from a Director | 1,383,023 |
| Other unallocated liabilities *(Note (b))* | 47,663 |
| Consolidated total liabilities | 4,252,578 |

*Notes:*

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

(b) Other unallocated liabilities mainly represent other payables and accruals not for coal mining business.

**Other segment information**

*For the year ended 31 March*

Amounts included in the measure of segment profit (loss) or segment assets:

Coal mining

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital additions | **9,983** | 22,379 |
| Amortisation of intangible assets | **1,539** | 5,865 |
| Amortisation of prepaid lease payment | **10** | 41 |
| Interest income | **95** | 103 |
| Depreciation of property, plant and equipment | **5,927** | 11,436 |
| Impairment loss on property, plant and equipment | **–** | 613,317 |
| Impairment loss on intangible assets | **–** | 68,216 |
| Impairment loss on prepaid lease payment | **–** | 1,323 |
| Loss on write off of property, plant and equipment | **16** | 801 |
| Loss on write off of development in progress | **–** | 3,613 |

**Geographical information**

The Group's operations are principally located in Hong Kong, Mongolia and the People's Republic of China (the "**PRC**").

Information about the Group's revenue from external customers is presented based on location of customers:

| | Revenue | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Mongolia | **2,864** | 3,347 |
| The PRC | **319,029** | 153,354 |
| | **321,893** | 156,701 |

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

| | Non-current assets | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **2,703** | 8,629 |
| Mongolia | **270,269** | 271,546 |
| The PRC | **11,399** | 7,628 |
| | **284,371** | 287,803 |

*Note:*

Non-current assets exclude financial instruments.

**Information about major customers**

During the year ended 31 March 2017, there was one (2016: one) customer engaging in steel production that individually exceeded 10% of the Group's turnover, amounting to HK$264,205,000 (2016: HK$152,484,000).

## 5. OTHER GAINS AND LOSSES

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Changes in fair value on held-for-trading investments | **38,916** | 49,508 |
| Early termination cost for a contractor *(Note (a))* | **–** | (7,091) |
| Loss on write off of property, plant and equipment | **(16)** | (801) |
| Loss on write off of development in progress | **–** | (3,613) |
| Gain on disposal of property, plant and equipment | **231** | 585 |
| Reversal of loss on write off of prepayments for exploration and evaluation expenditure *(Note (b))* | **7,904** | – |
| Gain on extinguishment of financial liabilities | **–** | 2,788 |
| Net exchange gain (loss) | **3,904** | (852) |
| | **50,939** | 40,524 |

*Notes:*

(a) On 25 May 2015, the Group issued a notice of termination to the overburden removal contractor. Based on the overburden removal services agreement, the Group is required to pay approximately HK$7.1 million indemnity to the overburden removal contractor under the condition that the contract is terminated for the convenience clause by the Group.

(b) Amount represented prepayment for exploration drilling which was written off by the Group during the year ended 31 March 2015. Reversal was made upon the refund of the prepayment subsequent to 31 March 2017.

## 6. FINANCE COSTS

| | 2017<br>*HK$'000* | 2016<br>*HK$'000* |
|---|---|---|
| Interest on advances from a Director | **114,311** | 90,449 |
| Interest on other loan *(Note)* | **366** | – |
| Effective interest expense on convertible notes *(Note 14)* | **410,307** | 342,913 |
| | **524,984** | 433,362 |

*Note:*

The amount represents interest payable to a loan which is unsecured and repayable on demand with principal amount of HK$7.4 million. The interest expense was charged at 6% per annum.

## 7. LOSS BEFORE TAXATION

| | 2017<br>*HK$'000* | 2016<br>*HK$'000* |
|---|---|---|
| Loss before taxation has been arrived at after charging/(crediting): | | |
| Directors' emoluments | **10,898** | 10,804 |
| Other staff costs: | | |
| Salaries and other benefits (net of reimbursement from a related party) | **59,023** | 65,491 |
| Equity-settled share-based payments | **–** | 8,414 |
| Retirement benefits scheme contributions (excluding contributions for Directors and net of reimbursement from a related party) | **6,245** | 6,250 |
| Total staff costs | **76,166** | 90,959 |
| Less: staff costs capitalised in inventories | **(26,273)** | (20,340) |
| | **49,893** | 70,619 |
| Amortisation of intangible assets | **1,588** | 5,914 |
| Depreciation of property, plant and equipment | **11,930** | 15,656 |
| Less: amortisation and depreciation capitalised in inventories | **(4,869)** | (9,056) |
| | **8,649** | 12,514 |
| Amortisation of prepaid lease payment | **10** | 41 |
| Auditor's remuneration | **3,480** | 3,400 |
| Rental income (net of negligible outgoing) | **–** | (894) |
| Operating lease rental in respect of office premises (net of reimbursement from a related party) | **2,829** | 5,918 |
| Impairment loss on other receivables | **177** | – |

## 8. INCOME TAX EXPENSE

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax | **–** | – |
| Deferred tax | **–** | – |
| | **–** | – |

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

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 years.

Mongolian corporate income tax was calculated at 10% to the first Mongolian Tugrik ("**MNT**") 3 billion of annual taxable income and 25% on the remaining annual taxable income for both years.

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

No provision for Hong Kong and overseas taxation has been made in the consolidated financial statements as the Group has no assessable profit for both years.

## 9. DIVIDENDS

No dividend was paid or proposed by the Company during the year ended 31 March 2017 nor has any dividend been proposed since the end of the reporting period (2016: Nil).

## 10. LOSS PER SHARE

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

| | **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 | **204,847** | 553,455 |

| | **2017** | 2016 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Number of ordinary shares for the purpose of basic and diluted loss per share | **1,815,558** | 1,739,445 |

*Note:*

The computation of diluted loss per share for both years 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.

## 11. EXPLORATION AND EVALUATION ASSETS

| | Mining and exploration rights *(Note (a))* *HK$'000* | Others *(Note (c))* *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| At 1 April 2015 and 31 March 2016 | – | – | – |
| Addition *(Note (b))* | 151 | 5 | 156 |
| At 31 March 2017 | 151 | 5 | 156 |

*Notes:*

(a) In prior years, mining and exploration rights include an exploration concession of around 2,986 hectares in Western Mongolia for ferrous resources. This iron ore exploration concession has been affected by the Mining Prohibition Law (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 Mineral Resources and Petroleum Authority of Mongolia (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 management, there was no revocation of its licence at 31 March 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 year ended 31 March 2017, 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 year. As at 31 March 2017, only limited exploration works were done on the iron ore concession.

(b) Addition represents an exploration concession tendered during the year.

(c) Other represents the expense incurred for the concession tendered during the year.

(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.

## 12. TRADE AND BILL RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **18,087** | 25,024 |
| Bill receivables | **36,995** | 2,980 |
| Accrued income *(Note)* | **104,504** | 1,707 |
| | **159,586** | 29,711 |

*Note:*

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

## 13. TRADE PAYABLES

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

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **15,764** | 5,312 |
| 31 to 60 days | **20,828** | 255 |
| 61 to 90 days | **9,616** | – |
| Over 90 days | **56,781** | 123,637 |
| | **102,989** | 129,204 |

## 14. CONVERTIBLE NOTES

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

| | **Debt component** | | **Derivative component** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| At beginning of the year | **2,053,436** | 1,710,523 | **534,217** | 1,181,324 | **2,587,653** | 2,891,847 |
| Interest charge | **410,307** | 342,913 | **–** | – | **410,307** | 342,913 |
| Changes in fair value of derivative component | **–** | – | **(235,971)** | (647,107) | **(235,971)** | (647,107) |
| At end of the year | **2,463,743** | 2,053,436 | **298,246** | 534,217 | **2,761,989** | 2,587,653 |

**2014 Convertible Notes with maturity date 21 November 2019**

In prior years, the Company issued HK$200 million 5% convertible note to Golden Infinity Co., Ltd. ("**Golden Infinity**") (the "**5% GI Convertible Note**"), HK$200 million 5% convertible note to Chow Tai Fook Nominee Limited ("**CTF**") (the "**5% CTF Convertible Note**") and HK$2 billion 3% convertible note to CTF (the "**3% CTF Convertible Note**").

On 19 September 2014, the Company entered into the subscription agreements with CTF, Golden Infinity and the holders of the 3.5% convertible notes with principal amount in aggregate amount of HK$466.8 million (the "**3.5% OZ Convertible Note**"), who conditionally agreed to subscribe for new 5-year 3% convertible notes at the subscription price which would be used for full settlement of the outstanding principal amount and accrued interest of the 5% GI Convertible Note, the 3% CTF Convertible Note, the 3.5% OZ Convertible Note and the 5% CTF Convertible Note.

On 21 November 2014, the Company issued convertible notes at HK$2,424,822,000, HK$542,315,000 and HK$499,878,000 to CTF, Golden Infinity and the holders of the 3.5% OZ Convertible Note respectively (the "**2014 Convertible Notes**").

### 15. CONTINGENT LIABILITIES

During the year ended 31 March 2013, the Company and MoEnCo LLC 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 statement of claims, 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 consolidated financial statements as at 31 March 2017 (2016: 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.

## EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

The Company's independent auditor's report for the year ended 31 March 2017 has included a separate section under the heading "Material uncertainty related to going concern" but without affecting the audit opinion, an extract of which is as follows:

### Material uncertainty related to going concern

We draw attention to Note 1* to the consolidated financial statements which indicates that as at 31 March 2017, the Group had net liabilities of approximately HK$3,931 million and net current liabilities of approximately HK$1,445 million. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from a substantial shareholder who is also the Chairman and Director of the Company. If the finance were not available, the Group would be unable to meet its financial obligations as and when they fall due. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

* *Being Note 1 in this announcement*

## FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the Financial Year (2016: Nil).

## ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting (the "**AGM**") of the Company will be held on 25 August 2017. The notice of AGM will be published and despatched to the shareholders of the Company in the manner as required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in due course.

The register of members of the Company will be closed from Tuesday, 22 August 2017 to Friday, 25 August 2017, both days inclusive. During such period, no transfer of shares of the Company will be registered. For the purpose of ascertaining the members' entitlement to attend and vote at the AGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 21 August 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

The Company is an investment holding company.

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.

The Khushuut Coal Mine is located approximately 1,350 km west of Ulaanbaatar in the Khovd Province of Western Mongolia. It is about 311 km from the Xinjiang Takeshiken border, connecting by the Khushuut Road built by us.

During the Financial Year, approximately 1,103,400 tonnes of run-of-mine ("**ROM**") coal were produced and approximately 389,250 tonnes of coal, including coking coal, raw coal and thermal coal, were sold to our customers during this period.

## RESULTS ANALYSIS

### Revenue

The Group's revenue achieved a twofold increase when compared with the last financial year. The significant growth in revenue was mainly due to the increase in both of the selling volume and price. The Group sold approximately 359,200 tonnes (2016: 233,200 tonnes) of clean coking coal to end users in Xinjiang, PRC and approximately 29,900 tonnes (2016: 29,000 tonnes) of thermal coal to customers in Mongolia. The total revenue was HK$321.9 million (2016: HK$156.7 million). The average selling prices of clean coking coal and thermal coal net of sales tax were HK$888.1 (2016: HK$657.5) and HK$95.7 per tonne (2016: HK$115.1) 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 Year was HK$198.5 million (2016: HK$139.7 million). It was divided into cash costs of HK$191.0 million (2016: HK$127.6 million) and non-cash costs of HK$7.5 million (2016: HK$12.1 million).

**Gross Profit**

The gross profit for the Financial Year was HK$123.4 million (2016: HK$17.0 million) with a gross profit ratio of 38.3% (2016: 10.8%). 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 with the last corresponding year was mainly due to a one-off earning from the disposal of scrapped inventory in our Xinjiang washing plant of HK$7.8 million.

**Other Gains and Losses**

The increase in other gains and losses during the Financial Year when compared with last corresponding year was mainly due to the combined net effect of (i) lower fair value gain from investment in listed securities in Hong Kong as compared with the last corresponding year; (ii) a one-off early termination cost for a contractor of HK$7.1 million was provided in 2016. This provision amount was fully settled during the Financial Year; (iii) a recovery of deposit in the amount of HK$7.9 million during the Financial Year from a drilling contractor which was previously written off; and (iv) net exchange gain of HK$3.9 million (2016: Net exchange loss of HK$0.8 million) due to the strengthening of United States dollar against Mongolian Tugrik in the Financial Year.

**Administrative Expenses**

Administrative expenses included the following major items:

(1) Staff costs of HK$49.9 million (2016: HK$70.6 million). The reduction was mainly due to no share option granted during the Financial Year; therefore, no related equity-settled share-based payment was recognised (2016: HK$14.1 million);

(2) Legal and professional fees of HK$18.7 million (2016: HK$19.9 million); and

(3) Depreciation and amortisation of HK$8.6 million (2016: HK$12.5 million).

**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 Year, 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$236.0 million was recognised in the Financial Year (2016: HK$647.1 million). Please refer to Note 28 to the consolidated financial statements for the major inputs adopted by the binomial valuation model.

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

Under the Company's accounting policies, the Company is required to assess the carrying value of the Mine Assets at the end of each reporting period. If the recoverable amount of the Mine Assets as determined by an independent valuer is significantly lower than their carrying value, an impairment loss should be recognised. A recoverable amount was determined by engaging an independent valuer to prepare a valuation report for the Financial Year. Same as previous years, the independent valuer adopted a value-in-use approach to assess the fair value of the Mine Assets as at 31 March 2017. The major parameters used in the valuation model for the Financial Year as compared to previous year were as follows:

(1) The discount rate was 16.91% (2016: 17.0%);

(2) Estimated current selling price for clean coking coal at around US$128 per tonne (2016: US$83 per tonne); and

(3) Estimated production costs and other operating costs were updated based on latest information.

The recoverable amount of the Mine Assets is based on value-in-use, determined by discounting the future cash flows generated from the continuing use of the Khushuut Coal Mine. The key assumptions used in the estimation of value-in-use include coal prices, operating costs, sales quantity/production volume, growth rate, inflation and discount rate. The sharp rebound in the coking coal price during the Financial Year had a substantial positive impact on the assessment of the fair value of the Mine Assets as at 31 March 2017. Consequently, the recoverable amount of the Mine Assets determined by the independent valuer was higher than their carrying value, impairment loss was not required in the Financial Year (2016: Impairment loss of HK$682.9 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 (2016: 19.96%). The ongoing accumulation of interest charge in the debt component of the convertible notes accounted for the increase in annual interest expense on these convertible notes in the Financial Year.

## BUSINESS REVIEW

**Coal Sales**

During the Financial Year, we sold approximately 359,200 tonnes of clean coking coal (after washing) (2016: 233,200 tonnes), and 150 tonnes of raw coking coal (without washing) to our customers in Xinjiang, China.

Apart from coking coal, we also supplied approximately 29,900 tonnes of thermal coal to the local community in Mongolia and China during the Financial Year (2016: 29,000 tonnes).

**Coal Production**

During the Financial Year, approximately 1,400,100 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 732,200 tonnes and 371,200 tonnes respectively.

**Coal Processing**

During the Financial Year, approximately 850,500 tonnes of ROM coal were processed by the dry coal processing plant, producing approximately 618,800 tonnes of raw coking coal. The average recovery rate was 73%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customer. In Xinjiang, approximately 425,100 tonnes of raw coking coal were processed by the washing plant, producing approximately 380,930 tonnes of clean coking coal. The average recovery rate was 89.6%.

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 Year, we were working to expand our customer base apart from our major customer.

We had entered into a master coal supply contract for 2016 with our major customer in Xinjiang (raw coal without processing). The actual sales price and the quantity to be delivered had to be negotiated and mutually agreed from time to time, monthly in general, between the parties during this period. Under the said master contract, the clearing was based on the actual clean coking coal delivered after washing, and on this basis, we sold 296,800 tonnes of clean coking coal to this customer during the Financial Year. It accounted for approximately 82% of our revenue in the Financial Year. In respect of our other customers, we also negotiated the sales and delivery orders shortly before delivery under the then prevailing market price and our quantity of coal available as the market conditions were constantly changing.

In March 2017, we concluded a new master coal supply contract with our major customer in Xinjiang. Similar to the 2016 contract, the actual sales price and quantity to be delivered have to be negotiated and mutually agreed from time to time between the parties during this period. Notwithstanding the signing of the new coal supply contract with our major customer, our production and shipment of coal are closely linked to the market and other conditions. We will closely monitor the developments and adjust our operation schedule from time to time.

Apart from our major customer for coking coal, we had seven other customers in Xinjiang during the Financial Year.

**Licences**

During the Financial Year, we had successfully bid for a new exploration licence from the Mongolian government for potential development aside from the Khushuut Project. We will conduct exploration on this licence area for initial assessment.

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

**Legal and Political Aspects**

The new Parliament of Mongolia elected in June 2016, together with its newly appointed Cabinet, have declared continuation of the existing policy to support the country's foreign investors.

The government programme ("**Programme**") for the Years of 2016-2020 were approved by the Parliament in September 2016. They affirm the favourable conditions, legal stability and protection of their rights and interests to be offered to foreign investors. The Programme gives priority to two main strategies, namely the "special policy to overcome current economic difficulties" to be realized in 2017-2018 and the "policy to ensure sustainable economic development" for the longer term. The major role in both has been given to the country's mineral sector. Having said that, the Government sees the main goal in creating an attractive environment for investment in the geology and mining sector, ensuring their sustainable development, and improving competitiveness of Mongolia in the international mineral commodity market. A specific provision undertakes to support investment in coal washing, processing and coal-to-gas production.

Attempting to improve the application of international agreements and domestic legislation, the Parliament made effective a number of amendments and revisions to the existing laws. Thus, the new edition of the Law on International Treaties of Mongolia was approved in late 2016 with an aim of making the application of international agreements in Mongolia better consistent with the contemporary international practices. In early 2017, the Government of Mongolia has taken the initiative to improve the legislative framework for resolving commercial disputes by the Mongolian national arbitration that is believed to contribute to a strong and competent arbitration practice in the country. The revised Arbitration Law was drafted on the basis of the 1985 UNCITRAL Model Law on International Commercial Arbitration with a few variations, and this new edition of the Arbitration Law is now in effect. The purpose of the new law is to bring the regulation of the arbitration of disputes in Mongolia in conformity with the international standards.

Mongolia's economic growth slowed to 1% in 2016 as the global commodity prices continued to fall and the growth in China was notably slow as well. Mongolia is also experiencing a significant budget deficit and shortage of investment. To cover the government fiscal deficit, facilitate the repayment of the bond dues and boost the overall economy, the Government of Mongolia sought a bailout package from the International Monetary Fund ("**IMF**"). The first 3-years tranche of this package in the amount of approximately USD$440 million has been negotiated. The Asian Development Bank, World Bank and bilateral partners like Japan and Korea are expected to provide up to another US$3 billion in budget and project support, while the People's Bank of China is expected to extend the 15 billion yuan swap line with the Bank of Mongolia for at least another three years.

In return of the loans, the IMF put forward a number of strict requirements and limitations aimed to restore the fiscal discipline, economic stability and government debt sustainability. To satisfy the IMF requirements, the Government took some measures to introduce new tax and budget revenue collection reforms. This includes:

(i) introduction of the progressive personal income tax of up to 25% instead of the current universal 10%;

(ii) increase of social security premiums from the current 21% to 26%; and

(iii) increase of several other tax rates such as the alcohol and tobacco excise tax, fuel sales tax, tax on the bank interest, etc.

In November 2016, the Parliament approved the Economic Recovery Action Plan which aims to stabilize the capital market, improve the local and central government budget and procurement discipline, and facilitate the banking transactions, services and more efficient governance of the banking and financial institutions. Important aspect of the government efficiency and discipline is its commitment to fight corruption.

Mongolia's economic recovery has been apparent since late 2016. The National Statistical Office reports the country's positive and strong foreign trade balance and higher-than-planned budget revenues in the first quarter of 2017. Mongolia exported 8.1 million tons of coal in the first three months of 2017, amounting to US$541.3 million, a year-on-year increase of 446 percent.

Last November, the Program Against Corruption was enacted which focuses on improving and strengthening the role of the judiciary, effectiveness of law enforcement authorities and the engagements of civil society and the private sector. It also attempts to address the problem relating to political party financing, strengthen the capacity of relevant authorities to collect, assess and investigate assets and income disclosure of public officials, better regulate public procurement processes and strengthen anti-money laundering and stolen asset recovery efforts.

**Environmental policies, relevant laws and regulations affecting us**

As a responsible corporation, environmental stewardship is one of the pillars of our sustainable business strategy to safeguard people and the environment, and to create enduring values for our customers, employees, host communities, shareholders, and business and supply chain partners. The Group has adopted an environmental policy focusing primarily on, among others, complying with the host-country legislation and regulations; establishing management systems and programs relevant to our environmental risks to prevent, reduce or mitigate impacts at all stages of our operations; regularly assessing our performance through evaluating our business processes and practices and monitoring the surrounding environment in which we operate.

Our business operation is mainly carried out by MoEnCo in Mongolia. MoEnCo has a detailed environmental assessment of the Khushuut Mine covering five years environmental management and protection related matters in our mine operation, and based on such documentation, the Ministry of Environment of Mongolia will approve an annual environmental plan while monitoring the implementation of the previous year's environmental plan through an implementation report submitted by MoEnCo. MoEnCo has an environmental management team responsible for implementing the environmental duties and responsibilities of MoEnCo under the directions of its mining director and deputy health, safety and environmental manager. The legal department of MoEnCo is responsible for recording compliance issues while monitoring timely execution and submission of the environmental reports and plans to the relevant Mongolian authorities on an annual basis.

MoEnCo had generally complied with its environmental duties as required by the Mongolian laws and regulations during the Financial Year. More details are set out in the Environmental, Social and Governance Report.

The relevant laws and regulations having significant impact on our operation include Minerals Law and various laws on the environmental protection such as Law on Environmental Protection, Law on Environmental Impact Assessment, the Mining Prohibition Law ("**MPL**"), etc. In general, MoEnCo has complied with these laws and regulations apart from those discussed above.

**Key stakeholders relationship**

Engaging with and building relationships with all our stakeholders is key to sustaining our business. Our stakeholders are the individuals, groups or organisations that affect and are affected by our business activities and performance. The stakeholders of the Group include our shareholders, employees, customers, contractors, the various Mongolian governmental authorities (such as the Ministry of Environment, Green Development and Tourism, the Ministry of Mining, the State Specialized Inspection Agency, the Mineral Resources and Petroleum Authority of Mongolia and their local governmental agencies), the various Chinese governmental authorities (such as the Environmental Protection Bureau, the Safe Production Supervision Administration, the General Administration of Customs and their local governmental agencies), and local communities. In general, we maintain a good relationship with them.

**Legal disputes 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 outstanding contractor fees of 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.

Subsequently the two actions had been consolidated. Under the consolidated Statement of Claim, Thiess had substantially reduced its claim to US$13.5 million (approximately HK$105.6 million) by giving up its alleged service fees after October 2012. We filed our consolidated Defence in November 2016. The proceedings are now in the documents discovery stage. We will continue to pursue the case to protect our best interests.

**With a Xinjiang Contractor**

The award was granted in favour of the Xinjiang contractor (SJ) against the Company in respect of a contractual dispute between MoEnCo and SJ for approximately RMB16.1 million (approximately HK$19.3 million).

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 had made a provision of approximately HK$21.0 million in respect of the claims in the previous financial year.

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. We had settled the judgment debts with SJ in January 2017.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

During the Financial Year, the cash shortfall from the operating activities was mainly covered by the short term loans granted by Mr. Lo Lin Shing, Simon ("**Mr. Lo**") as well as the proceeds from placement of new shares and exercise of share options of the Company. The borrowings of the Group as at 31 March 2017 mainly comprised convertible notes and advances from Mr. Lo in aggregate of HK$4,375.1 million (2016: HK$3,970.7 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 31 March 2017, the cash and bank balances of the Group were HK$14.2 million (2016: HK$19.2 million) and the liquidity ratio was 0.23 (2016: 0.13). The Group had net current liabilities of approximately HK$1,444.6 million (2016: HK$1,442.6 million). Mr. Lo commits to offer his financial support to the Group during and after the Financial Year. 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 Year accounted for the sharp increase in trade and bill receivables balances as at 31 March 2017. The majority of the trade and bills receivable are not overdue. Therefore, provision for bad and doubtful debts was considered unnecessary by the management of the Group.

### 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$38.9 million (2016: HK$49.5 million).

### Charge on Group's Assets

There was no charge on the Group's assets as at 31 March 2017. (2016: Nil)

### Gearing Ratio

As at 31 March 2017, the gearing ratio of the Group was 6.2 (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 consider hedging significant currency exposure should the need arise.

### Contingent Liabilities

The details of the Group's material contingent liabilities as at 31 March 2017 are disclosed in Note 15 to this announcement.

## OUTLOOK

During the Hong Kong Easter holiday this year, we were informed by the Xinjiang Takeshiken customs border that our raw coking coal import into Xinjiang via this border had to be suspended temporary pending the installation of certain security devices. Nonetheless, under a temporary arrangement, we were given permission to use an alternative customs border for coal import into Xinjiang for two weeks from 16 May 2017. The border security system has now been upgraded and the border authority has agreed to lift the import halt. We resumed our coal export into Xinjiang by trucks via the Xinjiang Takeshiken customs border starting on 8 June 2017.

In the international arena, although some of the political issues have become clearer in picture in the first half of 2017, there is a growing tension on the Korean Peninsula, and the situation in the East Asian region has become increasingly complicated. The US interest rates will bound to further rise this year. Capital markets will likely to be impacted. Therefore, the global economy is difficult to predict and remains challenging for the rest of 2017.

Since the rolling out of the "One Belt One Road" initiatives by the Chinese government in 2013, it has been progressing satisfactorily. The Asian Infrastructure Investment Bank for this project was set up and started operation in 2015. By 2016, billions worth of projects have been signed along the Belt and Road countries. The Belt and Road is one of the most important projects for China as it connects China with the western world. It is a channel to sustain China's economic growth while developing neighbouring relationships with the Belt and Road countries. Enormous infrastructures will be built, nurturing a prosperous market for our products.

The China coking coal market has seen its gradual recovery since 2016. Demand and supply in coking coal has been working towards balance. Stabilization of the coking coal prices in China is expected to continue, and prices may even moving upwards in the absence of major unpredictable supply disruptions for the remaining period of 2017.

As the market fundamentals in China have been improved, it is our priority to lower the costs of operation and increase sales for gaining our competitive edge. We will ramp up our scale of production to meet market demand. We are planning to expand our transportation fleet by purchasing additional trucks for our coal export. We will proactively look for new customers to enlarge our customer base. In addition, we will find ways to lower our transportation and operation costs for example, conducting feasibility study for a suitable location in the vicinity of our mine for building a washing plant. We will continue to adopt a cautious and flexible approach in our developments by closely monitoring the market conditions.

## SUBSEQUENT EVENTS

### Tenancy Agreement

We entered into an office tenancy agreement on 8 May 2017. The subject premises have been used as the principal place of business of the Company in Hong Kong since 2015.

The term of the tenancy is for two years commencing from 8 May 2017 and expiring on 7 May 2019 at a monthly rental of HK$339,800 (exclusive of rates, government rent, management fees and all other outgoings).

The Landlord is an investment holding company wholly and beneficially owned by Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), the Chairman and executive Director of the Company. As Mr. Lo is a connected person of the Company, the tenancy agreement constituted a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

## HUMAN RESOURCES

As at 31 March 2017, excluding site and construction workers directly employed by our contractors, the Group employed 596 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 Year, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE

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

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

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

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

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

   The Company has not set up a nomination committee as required. The Board considers that it should be the responsibility of the full Board to collectively review, deliberate on and approve the structure, size and composition of the Board and appointment of the Directors. The Board has already set out the criteria for selection of a Director under its 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 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.

   Due to another business engagement, the Chairman was unable to attend the 2016 AGM. An executive director 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 TRANSACTIONS

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

The Company has also established written guidelines on terms no less exacting than the Model Code (the "**Employees' Guidelines**") for securities transactions by relevant employees of the Group who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance with the Employees' Guidelines by the employees was noted by the Company during the reporting period.

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

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

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

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

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

Specific enquiry has been made by the Company, all the Directors have confirmed in writing that they have complied with the required standards set out in the Model Code and the Code throughout the Financial Year.

## REVIEW OF ANNUAL RESULTS

The independent auditor of the Company, Messrs. Deloitte Touche Tohmatsu, has agreed that the figures in respect of the Group's annual results for the year ended 31 March 2017 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year in accordance with its engagement under Hong Kong Standard on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" and with reference to Practice Note 730 "Guidance for auditors regarding preliminary announcements of annual results" issued by the Hong Kong Institute of Certified Public Accountants.

## AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive Directors, namely Mr. Lau Wai Piu, Mr. Tsui Hing Chuen, William *JP* and Mr. Lee Kee Wai, Frank. Mr. Lau Wai Piu is appointed as the chairman and has appropriate professional qualifications, accounting and related financial management experience.

The Audit Committee has reviewed the consolidated financial statements for the Financial Year of the Group.

## PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mongolia-energy.com). The annual report of the Company for the Financial Year containing all the information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites in due course.

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

Hong Kong, 27 June 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.*