MEC

MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2016

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 2016 (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 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Revenue	4	**156,701**	12,259
Cost of sales		**(139,717)**	(94,558)
Gross profit (loss)		**16,984**	(82,299)
Other income		**3,717**	2,149
Other gains and losses	5	**40,524**	(43,820)
Other expenses	7	**—**	(22,603)
Administrative expenses		**(145,396)**	(124,889)
Changes in fair value on derivative component of convertible notes	13	**647,107**	736,059
Impairment loss on property, plant and equipment	3	**(613,317)**	(6,037,959)
Impairment loss on intangible assets	3	**(68,216)**	(721,275)
Impairment loss on development in progress	3	**—**	(25,855)
Impairment loss on prepaid lease payment	3	**(1,323)**	(14,136)
Impairment loss on exploration and evaluation assets	10	**—**	(285,676)
Impairment loss on available-for-sale financial asset		**(165)**	(464)
Impairment loss on amount due from associate		**(8)**	(9)
Finance costs	6	**(433,362)**	(247,253)
Loss before taxation	7	**(553,455)**	(6,868,030)
Income tax expense	8	**—**	—
Loss for the year		**(553,455)**	(6,868,030)
Loss for the year attributable to owners of the Company		**(553,455)**	(6,868,030)
Loss per share attributable to owners of the Company			
— basic and diluted loss per share *(HK$)*	9	**(0.32)**	(4.07)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2016

	2016	2015
	HK$'000	*HK$'000*
Loss for the year	**(553,455)**	(6,868,030)
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
— Exchange differences arising on translation	**42**	1,132
Total comprehensive expense for the year	**(553,413)**	(6,866,898)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 March 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**258,220**	856,404
Intangible assets		**27,920**	102,050
Development in progress		**—**	3,613
Exploration and evaluation assets	10	**—**	—
Interests in associates		**—**	—
Available-for-sale financial asset		**—**	—
Other asset		**1,150**	1,150
Prepaid lease payment		**513**	1,935
		287,803	965,152
Current assets			
Prepaid lease payment		**15**	40
Inventories		**22,802**	23,738
Trade and bill receivables	11	**29,711**	7,982
Other receivables, prepayments and deposits		**22,329**	26,905
Held-for-trading investments		**117,797**	68,289
Amounts due from associates		**—**	—
Cash and cash equivalents		**19,237**	13,083
		211,891	140,037
Current liabilities			
Trade payables	12	**129,204**	106,304
Other payables and accruals		**140,942**	127,985
Advances from a Director		**1,383,023**	1,205,662
Deferred income		**1,345**	1,266
		1,654,514	1,441,217
Net current liabilities		**(1,442,623)**	(1,301,180)
Total assets less current liabilities		**(1,154,820)**	(336,028)
Non-current liabilities			
Convertible notes	13	**2,587,653**	2,891,847
Deferred income		**10,411**	10,976
		2,598,064	2,902,823
Net liabilities		**(3,752,884)**	(3,238,851)
Financed by:			
Capital and reserves			
Share capital		**35,735**	33,783
Reserves		**(3,788,619)**	(3,272,634)
Equity attributable to owners of the Company		**(3,752,884)**	(3,238,851)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

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 energy and related resources business.

The consolidated financial statements are presented in Hong Kong dollar. 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 Hong Kong dollar ("**HK$**"), as the Company's shares are listed on the Stock Exchange.

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group. While recognising that the Group had net liabilities of approximately HK$3,752.9 million and had net current liabilities of approximately HK$1,442.6 million at 31 March 2016 and incurred a loss of approximately HK$553.5 million for the year 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$517.0 million was unutilised as at 31 March 2016. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the Financial Year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"):

HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010–2012 Cycle
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011–2013 Cycle

The application of the above amendments to standards in the current year has had no material effect on the amount reported and/or disclosures set out 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 1 (Amendments)	Disclosure Initiative[2]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012–2014 Cycle[2]
HKFRS 9	Financial Instruments[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception[2]
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations[2]
HKFRS 15 (Amendments)	Clarification to HKFRS 15[1]
HKFRS 15	Revenue from contracts with customers[1]
HKFRS 16	Leases[4]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2016
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2019

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (i) impairment requirements for financial assets and (ii) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" 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 FVTOCI. 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. 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 new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Except for the potential early recognition of credit losses based on the Group's loss model in relation to the Group's financial assets measured at amortised costs, the Directors of the Company anticipate that the adoption of HKFRS 9 may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments at 31 March 2016. 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. The Directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 "Leases"

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases", introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under HKAS 17, which does not require the recognition of a right-of-use asset or lease liability for lessees of operating leases, but for which disclosure are made in relation to lease commitment as in Note 34(a) of the annual report.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Directors of the Company anticipate that the application of HKFRS 16 in the future may have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 16 until the Group performs a detailed review.

Except as described above, the Directors of the Company anticipate that the application of the other new and revised HKFRS will have no material impact on the results and the consolidated financial position of the Group.

3. 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.

As the recoverable amount of the Khushuut Related Assets determined by the Independent Valuer is lower than their carrying values, an impairment loss amounting to HK$682,856,000 (2015: HK$6,799,225,000) was recognised in the consolidated statement of profit or loss in the current year.

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 this year were mainly due to (i) a further decline in price of coking coal during the year ended 31 March 2016 and the price outlook as compared to that of last 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 in the current year with a reduction in cash flows expected to be received.

For the year ended 31 March 2015

	Carrying values before impairment *HK$'000*	Impairment loss *HK$'000*	Carrying values after impairment *HK$'000*
Property, plant and equipment	6,881,629	6,037,959	843,670
Intangible assets	822,057	721,275	100,782
Development in progress	29,468	25,855	3,613
Prepaid lease payment	16,111	14,136	1,975
Total	7,749,265	6,799,225	950,040

The reasons for such impairment loss being recognised in profit or loss during the year ended 31 March 2015 were mainly due to a sharp decline in the price of coking coal which had dropped by approximately 30% compared to that of previous financial year ended 31 March 2014 and the delay in the production plan in the short-term in response to the weak market conditions. During the year ended 31 March 2015, the Group had scaled down its production as the low coking coal price under the unfavourable market conditions meant that it was not economically viable to continue production in large scale after taking into account the significant transportation costs that were necessary to be incurred. The Directors only expected to ramp up production in 2017 once the market prices recovered and then achieve full production in 2020. This has had a significant impact on the value-in-use assessment performed by the Directors in the 2014 financial year with a reduction in the cash flows expected to be received (due to the decrease in expected selling prices compared to prior periods) and a delay in the timing of receipt of the cash flows expected by the Company (resulting from the then low production scale).

4. 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 year ended 31 March 2016

	Coal mining *HK$'000*	**Total** *HK$'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)**

For the year ended 31 March 2015

	Coal mining *HK$'000*	Total *HK$'000*
Segment revenue	12,259	12,259
Segment loss	(7,032,151)	(7,032,151)
Unallocated expenses *(Note)*		(50,031)
Other income		4
Other gains and losses		11,491
Changes in fair value on derivative component of convertible notes		736,059
Impairment loss on exploration and evaluation assets		(285,676)
Impairment loss on available-for-sale financial asset		(464)
Impairment loss on amount due from associate		(9)
Finance costs		(247,253)
Loss before taxation		(6,868,030)

Note:

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4 of the annual report. Segment loss represents the 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 exploration and evaluation assets, available-for-sale financial asset and amounts due from associates. 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 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**

As at 31 March 2015

	HK$'000
ASSETS	
Segment assets — coal mining	1,023,682
Held-for-trading investments	68,289
Cash and cash equivalents	7,057
Other unallocated assets *(Note (a))*	6,161
Consolidated total assets	1,105,189
LIABILITIES	
Segment liabilities — coal mining	200,494
Convertible notes	2,891,847
Advances from a Director	1,205,662
Other unallocated liabilities *(Note (b))*	46,037
Consolidated total liabilities	4,344,040

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 loss or segment assets:

Coal mining

	2016	2015
	HK$'000	*HK$'000*
Capital additions	**22,379**	242,287
Amortisation of intangible assets	**2,765**	15,455
Interest income	**103**	225
Depreciation of property, plant and equipment	**5,480**	15,189
Impairment loss on property, plant and equipment	**613,317**	6,037,959
Impairment loss on intangible assets	**68,216**	721,275
Impairment loss on development in progress	**—**	25,855
Impairment loss on prepaid lease payment	**1,323**	14,136
Loss on write off of property, plant and equipment	**801**	39,406
Loss on write off of development in progress	**3,613**	—
Loss on write off of prepayments for exploration and evaluation expenditure	**—**	10,458

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	
	2016	2015
	HK$'000	*HK$'000*
Mongolia	**3,347**	—
The PRC	**153,354**	12,259
	156,701	12,259

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

	Non-current assets	
	2016	2015
	HK$'000	*HK$'000*
Hong Kong	**8,629**	2,533
Mongolia	**271,546**	937,589
The PRC	**7,628**	25,030
	287,803	965,152

Note:

Non-current assets exclude financial instruments.

Information about major customers

During the year ended 31 March 2016, it had one (2015: one) customer engaging in steel production that individually exceeded 10% of the Group's turnover, amounting to HK$152,484,000 (2015: HK$12,245,000).

5. OTHER GAINS AND LOSSES

	2016	2015
	HK$'000	*HK$'000*
Changes in fair value on held-for-trading investments	**49,508**	12,011
Loss on write off of property, plant and equipment	**(801)**	(39,413)
Loss on write off of development in progress	**(3,613)**	—
Loss on write off of exploration and evaluation assets *(Note 10)*	**—**	(140)
Loss on write off of prepayments for exploration and evaluation expenditure *(Note (a))*	**—**	(10,458)
Gain (loss) on disposal of property, plant and equipment	**585**	(43)
Net exchange loss	**(852)**	(5,777)
Early termination cost for a contractor *(Note (b))*	**(7,091)**	—
Gain on extinguishment of financial liabilities	**2,788**	—
	40,524	(43,820)

Notes:

(a) The amounts represented prepayments for exploration drilling. It was written off during the year ended 31 March 2015 as the management considers the respective exploration operation is no longer fruitful.

(b) 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 if the contract is terminated for the convenience clause by the Group.

6. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on advances from a Director	**90,449**	71,105
Interest on other financial liability	**—**	6,997
Interest on convertible notes after remeasurement	**—**	61,642
Effective interest expense on convertible notes *(Note 13)*	**342,913**	107,509
	433,362	247,253

7. LOSS BEFORE TAXATION

	2016	2015
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging/(crediting):		
Directors' emoluments	**10,804**	6,757
Other staff costs:		
Salaries and other benefits (net of reimbursement from a related party)	**65,491**	60,119
Equity-settled share-based payments	**8,414**	—
Retirement benefits scheme contributions (excluding contributions for Directors and net of reimbursement from a related party)	**6,250**	4,834
Total staff costs	**90,959**	71,710
Less: staff costs capitalised in inventories	**(20,340)**	(13,110)
	70,619	58,600
Amortisation of intangible assets	**5,914**	31,092
Depreciation of property, plant and equipment	**15,656**	35,326
Less: loss on suspension of production (included in other expenses)	**—**	(22,603)
Less: amortisation and depreciation capitalised in inventories	**(9,056)**	(35,303)
	12,514	8,512
Amortisation of prepaid lease payment	**41**	163
Auditor's remuneration	**3,400**	3,345
Rental income (net of negligible outgoing)	**(894)**	(2,133)
Cost of inventories recognised as an expense	**139,717**	94,558
Operating lease rental in respect of office premises (net of reimbursement from a related party)	**5,918**	7,769

8. INCOME TAX EXPENSE

	2016	2015
	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 MNT3 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 for both years as the Group has no assessable profit for both years.

9. LOSS PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	**553,455**	6,868,030

	2016	2015
	'000	*'000*
Number of shares		
Number of ordinary shares for the purpose of basic and diluted loss per share	**1,739,445**	1,689,137

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 the exercise prices of the share options exceeded the average share price of the Company, and the conversion of the convertible notes would result in a decrease in loss per share.

10. EXPLORATION AND EVALUATION ASSETS

	Mining and exploration rights ***(Note (a))***	**Others** ***(Note (b))***	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2014	285,676	—	285,676
Additions	—	140	140
Written off *(Note (c))*	—	(140)	(140)
Impairment loss recognised in profit or loss	(285,676)	—	(285,676)
At 31 March 2015 and 2016	—	—	—

Notes:

(a) The balance of mining and exploration rights solely represents 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 Authority of Mongolia (the "**MRAM**") 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 MRAM'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 licence at 31 March 2016.

As at 31 March 2016, only limited exploration works were done on the iron ore concession. 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, 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 year ended 31 March 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 year.

(b) Others represent the geological and geophysical costs, drilling and exploration expenses incurred for concessions other than the iron ore exploration concession set out in (a) above.

For the year ended 31 March 2016, the Group confirmed with the Ministry of Environment, Green Development and Tourism of Mongolia that no exploration concession is overlapping with the forest areas or water basin protection zones and therefore might potentially be affected by the MPL (2015: 2). As the carrying amounts have been fully impaired, the management considers this would not have a significant financial impact to the Group.

(c) 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. During the year ended 31 March 2015, the Group had written off all costs related to the exploration and mining licences including those mentioned in (b) above as the management considers that the respective exploration licences are no longer fruitful. As a result, the corresponding evaluation and exploration assets are written off.

11. TRADE AND BILL RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**26,731**	7,982
Bill receivables	**2,980**	—
	29,711	7,982

The Group allows a credit period of 30-90 days to its customer. 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.

	2016	2015
	HK$'000	*HK$'000*
1–30 days	**11,526**	7,982
31–60 days	**—**	—
61–90 days	**3,349**	—
Over 90 days	**14,836**	—
	29,711	7,982

As of 31 March 2016, trade receivables of HK$14,836,000 (2015: HK$Nil) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aged analysis by due date of these trade receivables is as follows:-

	2016	2015
	HK$'000	*HK$'000*
1–30 days	**14,478**	—
61–90 days	**15**	—
Over 90 days	**343**	—
	14,836	—

12. TRADE PAYABLES

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

	2016	2015
	HK$'000	*HK$'000*
0 to 30 days	**5,312**	35,459
31 to 60 days	**255**	5,620
61 to 90 days	**—**	360
Over 90 days	**123,637**	64,865
	129,204	106,304

13. 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	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of the year	**1,710,523**	2,400,116	**1,181,324**	54,419	**2,891,847**	2,454,535
Issuance of convertible notes	—	1,604,051	—	1,862,964	—	3,467,015
Interest charge	**342,913**	107,509	—	—	**342,913**	107,509
Transaction costs on issuance of convertible notes	—	(1,153)	—	—	—	(1,153)
Change in fair value of derivative component	—	—	**(647,107)**	(736,059)	**(647,107)**	(736,059)
Redemption	—	(2,400,000)	—	—	—	(2,400,000)
At end of the year	**2,053,436**	1,710,523	**534,217**	1,181,324	**2,587,653**	2,891,847

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**") and 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 Notes respectively (the "**2014 Convertible Notes**").

14. CONTINGENT LIABILITIES

During the year ended 31 March 2013, the Company and MoEnCo LLC, a wholly-owned subsidiary of the Company, disputed the services provided by the former sole 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 sole mining contractor.

The former sole 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 sole 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, of which approximately HK$50.0 million has been provided for in the consolidated financial statements as at 31 March 2016 (2015: HK$50.0 million). Based on the opinion provided by legal counsel of the Company, the Directors consider that the payment of the remaining balance is not probable.

EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

The Company's independent auditor's report for the year ended 31 March 2016 has been modified but without qualification, an extract of which is as follows:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2016, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of Matters

We draw attention to Note 1* to the consolidated financial statements which indicates that as at 31 March 2016, the Group had net liabilities of approximately HK$3,753 million and net current liabilities of approximately HK$1,443 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 a Director of the Company. If the finance is 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.

* *Being Note 1 in this announcement*

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the Financial Year (2015: Nil).

ANNUAL GENERAL MEETING

The notice of the 2016 annual general meeting (the "**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 on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in due course.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Company is an investment holding company. Our mining operation is carried out by MoEnCo LLC ("**MoEnCo**"), an indirect wholly-owned subsidiary of the Company in Mongolia.

Our principal project is the Khushuut Coking Coal Project. 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, we continued our tightening measures and careful planning in our operation and production in response to the stringent market conditions. Approximately 425,700 tonnes of run-of-mine ("**ROM**") coal were produced and approximately 233,200 tonnes of clean coking coal were sold to our customers during this period.

We had issued an aggregate of 97,621,542 new shares to our contractors for settlement of the outstanding service fees amounted to approximately HK$28.1 million during the Financial Year.

RESULTS ANALYSIS

Revenue

The People's Republic of China (the "**PRC**"), the world's largest steel producer, reported a decline in the production of raw steel for the first time since 1981. Accordingly, the overall demand for coking coal in PRC was dampened. The coking coal prices in PRC continued at low level during the Financial Year.

The Group sold approximately 233,200 tonnes of clean coking coal to our end users in Xinjiang, PRC and approximately 29,000 tonnes of thermal coal to customers in Mongolia. The total revenue was HK$156.7 million (2015: HK$12.3 million). The average selling price net of sales tax of clean coking coal was HK$657.5 per tonne (2015: HK$761.9 per tonne) and thermal coal was HK$115.1 per tonne (2015: HK$114.0 per tonne).

Cost of Sales

The cost of sales for the Financial Year was HK$139.7 million (2015: HK$94.6 million). It was divided into cash costs of HK$127.6 million (2015: HK$65.3 million) and non-cash costs of HK$12.1 million (2015: HK$29.3 million). In response to the unfavourable market conditions, overburden works were ceased from May 2015 to the end of the Financial Year.

Other Income

During the Financial Year, the Group's subsidiary in the PRC received a grant of HK$1.8 million (2015: HK$0.4 million) from the Xinjiang governmental authority to subsidise the construction of our coal washing plant and cross border trading activities.

Other Gains and Losses

During the Financial Year, the Company issued 97,621,542 new shares, at weighted average price of HK$0.26 per share, equivalent to HK$25.3 million in full and complete settlement of HK$28.1 million due to several trade creditors of the Group. A resulting gain in aggregate of HK$2.8 million was recognised upon the extinguishment of such accounts payable.

In addition, the Group recorded unrealised gain on changes in fair value of investment in listed security of approximately HK$49.5 million (2015: HK$12.0 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$647.1 million was recognised in the Financial Year (2015: HK$736.1 million).

Administrative Expenses

Administrative expenses included the following major items:

(1) Staff costs of HK$70.6 million (2015: HK$58.6 million). 84,500,000 share options were granted to directors and employees during the Financial year and therefore HK$14.1 million equity-settled share based payment was recognised (2015: Nil);

(2) Legal and professional fees of HK$19.9 million (2015: HK$16.9 million);

(3) Depreciation and amortisation of HK$12.5 million (2015: HK$8.5 million); and

(4) Air pollution fee of HK$9.9 million back charged by the Mongolian authority for mining operations in calendar year 2014 and before.

Impairment Loss recognised 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.

An impairment review was undertaken by engaging an independent valuer to prepare a valuation report for the Financial Year. Same as previous periods, the independent valuer adopted a value-in-use approach to assess the fair value of the Mine Assets as at 31 March 2016. The major changes to the parameters used in the valuation model for the Financial Year as compared to previous year are as follows:

(1) The discount rate was 17.0% (2015: 17.4%);

(2) Estimated current selling price for clean coking coal at around US$83 per tonne (2015: US$94 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.

Coking coal is a vital ingredient in the steel making process. The slowdown of steel demand in the PRC during the Financial Year was due to the cooling down in infrastructure and real estate investments. This caused the slash in demand of steel-related raw materials such as iron ore and coking coal. Hence, the unfavourable coking coal market conditions in the PRC accounted for the continuing decline in the coking coal price. The fall in the coking coal price during the Financial Year had a substantial negative impact on the assessment of the fair value of the Mine Assets in this period.

The discount rate adopted in the value-in-use model is derived from the Group's weighted average cost of capital ("**WACC**") with appropriate adjustments made to reflect the risks specific to the Khushuut Coking Coal Project. The WACC takes into account both debt and equity, and weighted based on the Group's and comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors and based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of comparable peer companies. The discount rate of 17.0% (2015: 17.4%) was applied in the value-in-use model. The change of discount rate from last year was a combined result of the updates on the WACC including the risk-free rate and other risk premium factors. The risk-free rate adopted was the yield of China 10-year government bond as at the date of valuation. The risk premium factors were to reflect the business risks of the Khushuut Coal Mine.

Finance Costs

The effective interest rate of the debt components of the convertible notes issued in November 2014 was 19.96% (2015: 3% to 19.96%). Interest expense on debt components of the convertible notes was charged at 19.96% for the whole Financial Year and this accounted for the sharp increase in finance costs when compared to last corresponding year.

BUSINESS REVIEW

Coal Sales

During the Financial Year, we sold approximately 233,200 tonnes of clean coking coal (after washing) to our customers in Xinjiang, China (2015: 16,000 tonnes).

Apart from the clean coking coal, we also supplied approximately 29,000 tonnes of thermal coal to the local community in Mongolia during the Financial Year.

Coal Production

During the Financial year, approximately 521,900 bank cubic meters (BCM) of overburden were removed for the purpose of exposing the coal seams for the subsequent coal mining works. Pursuant to our austerity measures, the progress of overburden removal was suspended in May 2015 and the contractual services for overburden removal were effectively terminated in July 2015 in accordance with the terms of the relevant mining agreement. Accordingly, we scaled down our operations in response to the weak market conditions, and engaged only one mining contractor to excavate coal from the stripped coal seams. However, such exercise would only allow limited volume of coal to be extracted without further removing the topsoil and overburden. To continue the excavation, we must engage another contractor for removing the overburden covering our target coal seam. Shortly after we entered into the coal supply contract for 2016 with our customer, we engaged our former overburden removal contractor to perform the topsoil stripping works starting from June 2016.

Production of ROM coal and thermal coal were approximately 425,700 tonnes and 152,600 tonnes respectively.

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 361,500 tonnes of processed raw coking coal were shipped from Mongolia to Xinjiang during the Financial Year.

Coal Processing Infrastructures

Coal quality control is an important step in the course of our production. To achieve this, we have built a dry coal processing plant ("**DPP**") in the Khushuut Coal Mine and a coal washing plant in Xinjiang.

During the Financial Year, an approximate 372,500 tonnes of ROM coal were processed by the DPP, producing an approximate 297,700 tonnes of raw coking coal. The average recovery rate was 79.9%. The raw coking coal would then stand for export to Xinjiang for further washing before delivery to our customers.

During the Financial Year, an approximate 335,300 tonnes of raw coking coal were processed by the coal washing plant, producing an approximate 248,300 tonnes of clean coking coal. The average recovery rate was 74.1%.

Customers and Sales

Due to the economic slowdown and our prudent production policy, we did not actively expand our customer base during the Financial Year. However, we will consider new potential customers when opportunity arises.

We entered into the coal supply contract for this year up to 31 December 2016 with our customer in Xinjiang for supplying up to 1,000,000 tonnes of coking coal (raw coal) conditional on the sales price to be negotiated and mutually agreed from time to time between the parties in this period. Notwithstanding the signing of the coal supply contract, our production and shipment of coal are closely linked to the market conditions and there is no guarantee that the target volume can be reached. We will closely monitor the developments and adjust our operation schedule from time to time. If the market conditions remain harsh, we may halt our production temporarily and this will affect our trading prospects.

Licences

Under the Minerals Law of Mongolia (the "**Minerals Law**"), in order to maintain an exploration licence valid and effective, a holder of such licence has numerous obligations to fulfill. These include, among others, submission of annual exploration plans, exploration reports, environmental protection reports, and annual safety reviews. An exploration licence holder is required to spend minimum exploration expenses on its exploration licence. An annual licence fee is also required to maintain validity of the exploration/mining licence. Non-compliance of any of the requirements will not only lead to suspension or revocation of the licence, but also subject the holder to a fine.

We have adopted prudent expenditure policies in our operations and developments. Currently, we have maintained eight mining licences for our Khushuut operations, one non-Khushuut mining licences and one exploration licence for ferrous resources in Bayan-Ulgii, Mongolia.

According to the Law of Mongolia on the Prohibition of Minerals Exploration and Mining in Headwater Areas, Protected Zones for Water Reserves and Forest Lands (the "**MPL**"), one of our Khushuut mining licences, licence no. 11888A, was partially overlapped with the watershed protection area. As a result, we had returned the affected area along the Khushuut river to the Mongolian government in December 2015. The original licence no. 11888A was then divided into two mining licences, namely, licence nos. 11888A and 20299A. All licences of our Khushuut Coal Mine are now free from the impact of the MPL.

Please refer to the paragraph of "Exploration and Mining Concessions of the Group" in our annual report for further details.

Legal and Political Aspects

The government of Mongolia continues its policies of supporting domestic production, promoting export, and providing better investment environment to attract potential investment.

In the 2015 session so far, a number of legislation affecting the economic, social and legal sectors were passed by the Parliament of Mongolia.

On the domestic side, under the Law on Supporting Production, the government will subsidize the commercial interest on loans for technological updates and capital investment for export producers, as well as providing financial arrangements with an aim to stimulate their export output in generating domestic value. However, these supporting measures do not extend to foreign-invested companies and the companies having investment agreements with the government. The mineral sector is also excluded from this Law.

In addition, the Parliament of Mongolia approved the Law on Economic Transparency, which protects people and companies from administrative sanctions and criminal punishment when they declare previously undisclosed assets. The protection does not apply to political appointees or civil servants. The measure is designed to curb Mongolia's underground economy and reduce inappropriate acts by government officials.

The Law on Value-added Tax ("**VAT**") was revised in July 2015. Under the revised Law, apart from some types of exempted goods, works and services, the existing VAT rate of 10% remains the same on all types of goods, works and services imported to Mongolia. The revenue threshold for VAT payer registration has been increased from MNT10 million to MNT50 million.

Apart from domestic stimulation, the Parliament also revised the Law on Auditing and the Law on Accountancy with an aim to improve the financial reporting system, transparency, and the legal and institutional framework of auditing activities in Mongolia. According to the Law on Accountancy, effective from January 2016, all business entities and public institutions will be required to apply international financial reporting standards (IFRS) applicable to each respective entity. Companies within the energy sectors such as mining and petroleum are all required to comply with such reporting requirements.

The current policies on the energy and mineral sectors are to ensure uninterrupted and reliable supply of energy domestically and to become an energy exporting country in Mongolia. A number of power plants will be built and various power transmission lines connecting towns and cities will be envisaged.

The Ministry of Mining announced that it has adopted the Mongolian Code for the Public Reporting of Exploration Results, Mineral Resources and Mineral Reserves (The MRC Code), which has been developed by the sector's associations and non-governmental organizations. The MRC Code sets minimum requirements for public reporting by the Mongolian mining and exploration companies for the purpose of informing investors, potential investors and their advisers on exploration results, mineral resources and mineral reserves of the companies.

The government of Mongolia issued a resolution in connection with the royalty regime. From 1 February 2016 onwards, royalties are calculated based on the actual contract price in which transportation cost to the Mongolian border should be included.

In February 2016, the "Long-term Concept of Sustainable Development of Mongolia" was adopted by the Parliament. It aims to make Mongolia a leading middle-income country with stable multi-sector economy, preserved ecological balance, and with sustainable democracy by 2030. One of the key objectives of this Concept is to intensify agriculture, to create and export Mongolian organic brands, to promote value-added final productions, to improve a competitiveness of mining sector, to develop tourism, to cover the domestic energy consumption, and to export energy by building more sources.

The Mongolian government has also approved its Economic Diplomacy Agenda on 7 December 2015. The objective of this Agenda is to contribute to the national economic development, through the means of foreign relations, as supporting its key pillars of advancing export oriented business activities by national entities, enhancing market access and creating new possibilities, introducing of environmentally friendly and advanced technology, improving competitiveness and attracting foreign investment. The implementation of the Agenda is to ensure integrity of foreign policies and to support for creating favourable external environment and intensifying national economic potential for development and prosperity.

A revised version of the Law on Elections was approved in December 2015. For all the elections which were previously, parliamentary, presidential, city council, and local elections regulated under separate laws, they shall now be regulated by the newly adopted Law on Elections. Parliamentary elections will be held on the same day as elections for city and local councils in order to save costs and reduce partisan politics. Candidates running for executive positions in state services or legal bodies that are engaged in ventures with the state are obligated to resign from their current positions three months prior to the election. Other state servants can proceed with their duties while running a campaign for local elections.

A Parliamentary and local elections are going to be held on 29 June 2016.

The Parliament of Mongolia adopted the updated version of the Criminal Code in December 2015, which will come into effect in September 2016. Under the existing Criminal Code, there is no provision assigning legal liability to a legal entity. In this circumstance, only physical persons are able to be subjected to liability. Pursuant to the new Criminal Code, if certain crimes specified in the Criminal Code are committed for and on behalf of legal entity or in its interest, such as environmental crime, money laundering and terrorism financing, the legal entity itself will be subjected to punishments including fine, deprivation of rights and/or potentially dissolution.

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, the environment and create enduring values for our customers, employees, host communities, shareholders, and business and supply chain partners. The Company 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 directions of its mining director and 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.

Apart from the effectiveness of dust suppression issues during our operation as well as some land rehabilitation issues, MoEnCo had generally complied with its environmental duties as required by the Mongolian laws and regulations during the Financial Year. We will continue to look for ways to improve such issues in future.

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

Key stakeholders relationship

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 Authority of Mongolia (the "**MRAM**") 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.

Subscription of Shares

During the Financial Year, we entered into eight share subscription agreements for the respective allotments and issues of new shares with our contractors in the aggregate principal sum of approximately HK$28.1 million, with the share issue price ranging from HK$0.173 to HK$0.54 per new share. The total number of new shares under these subscription agreements was 97,621,542, constituting approximately 5.46% of the issued share capital of the Company as at 31 March 2016. The considerations of such proceeds were used to set off the outstanding contractors' fees of these contractors.

Adjustment to the conversion price on the 2014 Convertible Notes

As a result of the issue of new shares pursuant to several subscription agreements during the Financial Year, and pursuant to the terms and conditions of the 2014 Convertible Notes, the initial conversion price of the 2014 Convertible Notes had been adjusted from HK$0.92 to HK$0.89 per conversion share. As of today, no conversion has been exercised by any of the respective holders of the 2014 Convertible Notes. Save for the above adjustments, all other terms and conditions of the respective 2014 Convertible Notes remain unchanged.

Tenancy Agreement

We entered into an office tenancy agreement on 27 April 2015. It is for a term of two years commencing from 8 May 2015 and expiring on 7 May 2017 with an option to renew for one year. The landlord is an investment holding company wholly and beneficially owned by 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.

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 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)

After the close of pleadings, Thiess was pressing to move the case forward with an aim of setting down for trial as soon as possible. It had taken out a case management conference to be heard by the court for directions. However, the court noted that the parties had yet to go through a mediation process, and therefore ordered the parties to set down for mediation. 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.

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), 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 has 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 has instructed its legal counsels to set aside the court order and has made full provision in the Financial Year.

With the Overburden Removal Contractor

Pursuant to our austerity measures, we terminated the service contract with Monnis Mining Equipment LLC ("**Monnis**"), our overburden removal contractor for the Khushuut Coal Mine in accordance with the terms of the relevant mining agreement, and the termination was effective on 24 July 2015.

Subsequently, MoEnCo received a legal claim lodged in the Mongolian court by Monnis for approximately MNT15.9 billion (approximately HK$61.9 million) being the outstanding contract service fees and termination payment payable under the relevant mining agreement. The judgment was then granted in favour of Monnis. The full amount of the outstanding contractor fees had been provided in the Financial Year. As a result of the judgment, MoEnCo had made partial payment to Monnis. Monnis has yet to enforce the judgment against MoEnCo. Despite the outstanding judgment debts, MoEnCo maintains a general good relationship with Monnis. In April this year, MoEnCo engaged Monnis again to be our overburden removal contractor to perform topsoil stripping services for the Khushuut Coal Mine starting from June 2016.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the Financial Year, the Group's capital expenditure and working capital were mainly funded by short terms loans granted by Mr. Lo. Apart from it, the Company had issued an aggregate of 97,621,542 new shares to our contractors for full settlement of service fees amounted to approximately HK$28.1 million.

The borrowings of the Group at 31 March 2016 comprised convertible notes and advances from Mr. Lo in aggregate amounting to HK$3,970.7 million (2015: HK$4,097.5 million). The convertible notes are non-current liabilities and will be matured on 21 November 2019. The advances from Mr. Lo are current liabilities.

As at 31 March 2016, the cash and bank balances were HK$19.2 million (2015: HK$13.1 million) and the liquidity ratio was 0.13 (2015: 0.10).

The Group had net current liabilities of approximately HK$1,442.6 million (2015: HK$1,301.2 million) as at 31 March 2016. 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.

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$49.5 million (2015: HK$12.0 million).

Charge on Group's Assets

There was no charge on the Group's assets as at 31 March 2016 (2015: Nil).

Gearing Ratio

As at 31 March 2016, the gearing ratio of the Group was 7.9 (2015: 3.7) which was calculated based on the Group's total borrowings to total assets.

Foreign Exchange

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

Contingent Liabilities

The details of the Group's material contingent liabilities as at 31 March 2016 are disclosed at Note 14 to the consolidated financial statements.

OUTLOOK

Outlook continues to be mixed for the global economy in the near future. The PRC government has a firm determination to slash overcapacity in some industries, in particular, coal and steel, which are the major drag on China's growth in recent years, and the government is at pains to trim down the sectors. The coal and steel industries are still in winter and survival will be the main strategy for most companies in these sectors.

During the harsh period of the Financial Year, our teams had achieved an outstanding job in lowering the operational costs by strictly controlling the expenses. We pride ourselves on quality control which we have successfully gained the confidence of our customer and signed an annual sales contract for the supply of up to 1,000,000 tonnes of raw coal. Shortly after that we have also engaged our former overburden removal contractor for topsoil stripping services. Export activities were recommenced in March this year and overburden removal works have already been started. According to the current mining progress, and taking into account the sluggish market price for coking coal, we expect to fulfill up to 60% of the 2016 contractual volume without further unexpected downturn of the market conditions and operational factors. If the market conditions become favourable, we will strive to increase production and shipping volume.

As the road ahead will still be rough in 2016, it follows that a prudent and tight budget control in our operations will be our principal strategy while closely monitoring the changes in the market for our production. Apart from that, we will also strive to improve our product quality and operational efficiency.

The recent coal export data released by the Mineral Resources Authority of Mongolia has shown signs of recovery. From January to April of 2016, Mongolia's coal exports stood at 11.4 million tonnes. While in April alone, Mongolia exported 3.64 million tonnes of coking coal, up 52.94% month on month. Out of this figure, clean coking coal exports stood at 530,000 tonnes, up 50.84% on the month. Boosting both productivity and transport links to facilitate coal exports are becoming an increasing priority of Mongolia as coal exports account for a major source of state revenue and export earnings. We trust that the Mongolian's policies will continue to support the coal industry and attract more foreign investors.

In relation to the "One Belt, One Road" initiatives, the Asian Infrastructure Investment Bank was set up last December. China has been actively pursuing this mega economic project in order to boost the economic developments among the countries along the Belt and Road, and this will bring ample opportunities to the industries of China including coal and steel.

Notwithstanding the present adversities, our coking coal products have a competitive edge with low volatile matter and generally high caking index, are ideal for the steel manufacturing process. Our management team holds the belief that as long as we work hard to achieve our goals, all challenges and difficulties can be sailed through.

HUMAN RESOURCES

As at 31 March 2016, excluding site and construction workers directly employed by our contractors, the Group employed 552 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 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 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, 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 2015 AGM. The managing director took the chair of the 2015 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 2015 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. To date, no incident of non-compliance with the Employees' Guidelines by the employees was noted by the Company.

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

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

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

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

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

AUDIT COMMITTEE

The Audit Committee of the Company currently comprises three independent non-executive Directors. Mr. Lau Wai Piu was appointed as the chairman of the Audit Committee. He has appropriate professional qualifications, accounting and related financial management expertise.

Composition of the Audit Committee:

Mr. Lau Wai Piu *(chairman of the Audit Committee)*
Mr. Peter Pun *OBE, JP*
Mr. Tsui Hing Chuen, William *JP*

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 2016

As at the date of this announcement, the Board comprises six Directors, including Mr. Lo Lin Shing, Simon and Ms. Yvette Ong as executive Directors, Mr. To Hin Tsun, Gerald as non-executive Director, and Mr. Peter Pun OBE, JP#, Mr. Tsui Hing Chuen, William JP, and Mr. Lau Wai Piu as independent non-executive Directors.

The Company was unable to reach Mr. Peter Pun as he was on sick leave at the date of this announcement.