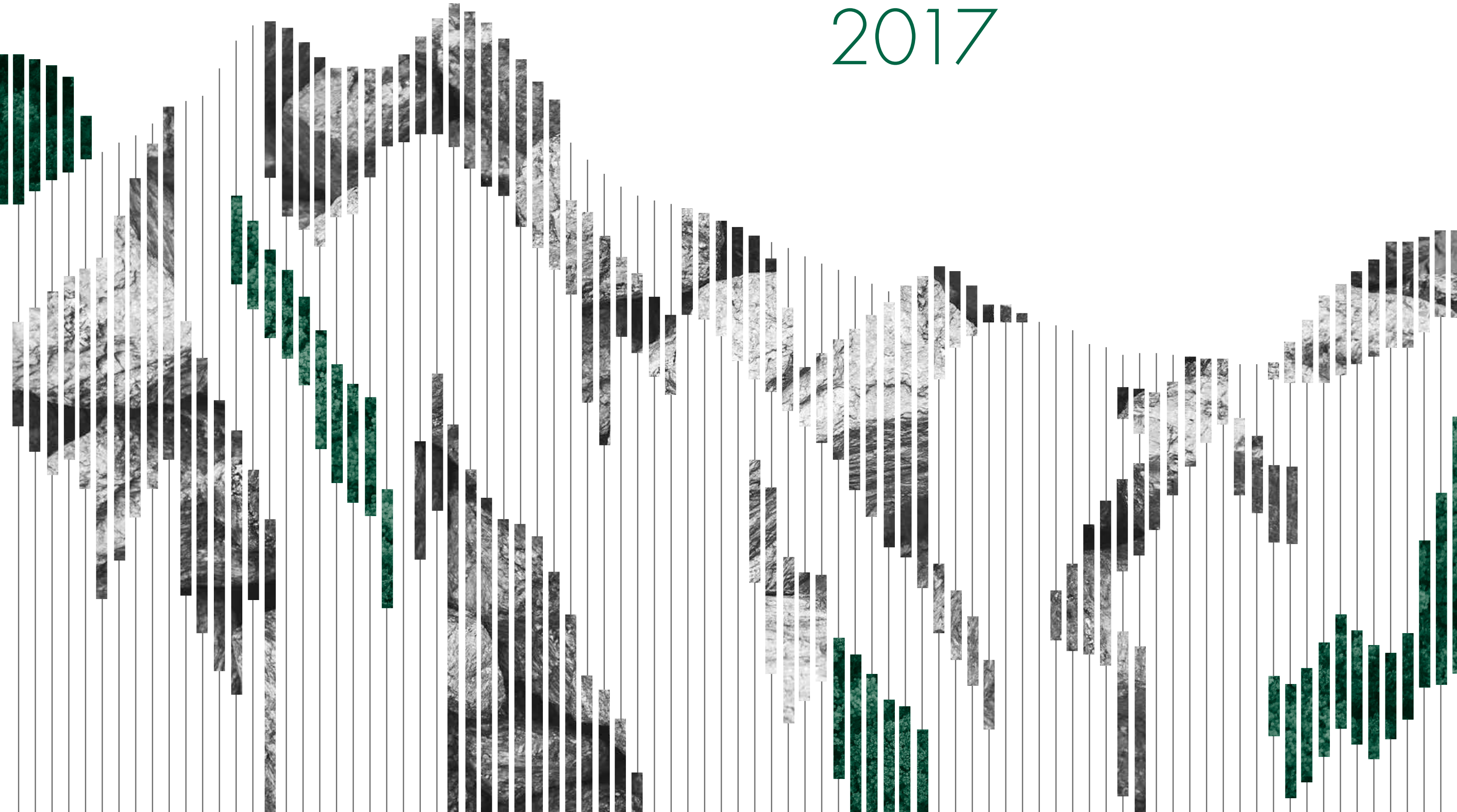
MONGOLIA ENERGY CORPORATION

蒙古能源有限公司

Incorporated in Bermuda with limited liability

Stock Code: 276

INTERIM REPORT 2017



CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Report contains certain forward-looking statements and opinions with respect to the operations and businesses of MONGOLIA ENERGY CORPORATION LIMITED ("**MEC**") and its subsidiaries (the "**Group**"). These forward-looking statements and opinions relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations, and estimates and are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will, or other results of actions that may or are expected to occur in the future. You should not place undue reliance on these forward-looking statements and opinions, which apply only as of the date of this Report. These forward-looking statements and opinions are based on the Group's own information and on information from other sources which the Group believes to be reliable.

Our actual results may be materially less favourable than those expressed or implied by these forward-looking statements and opinions which could affect the market price of our shares. You should also read the risk factors set out under our circulars, announcements, and reports for each of the transactions, which are deemed incorporated into and form part of this Report and as qualification to the statements relating to the relevant subject matters. Neither the Group nor any of its directors or officers shall assume any liability in the event that any forward-looking statements or opinions do not materialize or turns out to be incorrect. Subject to the requirements of the Hong Kong Listing Rules, MEC does not undertake to update any forward-looking statements or opinions contained in this Report.

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CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**"), I hereby present the interim results of Mongolia Energy Corporation Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") for the six months ended 30 September 2017 (the "**Financial Period**") as follows:

OVERVIEW

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

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

RESULTS ANALYSIS

Revenue

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

Cost of Sales

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

Gross Profit

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

Other Gains and Losses

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

Administrative Expenses

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

Changes in Fair Value on Derivative Component of Convertible Notes

The convertible notes issued by the Company in 2014 contain debt and conversion option components. In pursuance of the Company's accounting policies, the fair value of the conversion option components of the convertible notes shall be re-measured at the end of each reporting period. At the end of the Financial Period, an independent valuer was engaged by the Company using binomial valuation model to determine the fair value of the conversion options of the convertible notes. A resulting gain on changes in fair value of HK$83.8 million was recognised in the Financial Period (2016: HK$65.7 million). Please refer to Note 17 to the condensed consolidated financial statements for the major inputs into the binomial valuation model.

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

At the end of the Financial Period, an independent qualified professional valuer was engaged by the Group to determine the recoverable amount of the Mine Assets. In pursuant to the recoverable amount assessment, no further impairment or reversal of impairment is required in the Financial Period (2016: Nil).

Finance Costs

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

MARKET REVIEW

Coking coal, also known as metallurgical coal, is principally used in steel industry. It is a vital ingredient in the steel making process. Therefore, coking coal demand is subject to volatility of steel market which is affected by the world economy. The steel market performance in China in turn affects our production and planning.

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

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

Prices of coking coal remained robust in the first half of the year as a result of the country's strong steel output. According to the Chinese Customs data, coal import of China, including thermal and metallurgical coal, in the first nine months of the year rose by 13.7% year on year, reaching 204.85 million tonnes. During this period, the import of coking coal reached 52.8 million tonnes, rising by 21.5% year on year and the coking coal import value amounted to US$7.05 billion, surging by 140.3% year on year. On the export of coking coal for the first nine months, it was only 2.1 million tonnes, which was a relatively small figure compared to its import. The better-than-expected growth of the Gross Domestic Product (the "**GDP**") which was standing at 6.8% in the first three quarters of the year and the implementation of coal and steel de-capacity policies have contributed to the surge in demand of coking coal.

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

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

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

BUSINESS REVIEW

Coal Sales

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

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

Coal Production

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

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

Coal Processing

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

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

Customers and Sales

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

Licences

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

Legal and Political Aspects

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

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

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

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

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

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

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

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

(1) The Company does have leave to file and serve its Amended Defence which the Company did so by 16 October 2017;

(2) Thiess does have leave to file and serve its Amended Reply (consequential to the amendments made in the Amended Defence) within 84 days thereafter (i.e. on or before 8 January 2018);

(3) The parties do have leave to exchange supplemental witness statements within 56 days thereafter (i.e. on or before 5 March 2018);

(4) The parties are to discuss and attempt to agree on the various matters relating to the expert evidence, which include the fields of expert evidence, proposed terms of reference for experts as well as further directions on the timetable for expert evidence; and

(5) The next Case Management Conference be fixed on a date not before 3 September 2018.

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

FINANCIAL REVIEW

Liquidity and Financial Resources

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

Trade and Bills Receivables

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

Investment in a Listed Security

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

Charge on Group's Assets

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

Gearing Ratio

As at 30 September 2017, the gearing ratio of the Group was 6.1 (31 March 2017: 6.2) which was calculated based on the Group's total borrowings to total assets.

Foreign Exchange

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

Contingent Liabilities

The details of the Group's material contingent liabilities as at 30 September 2017 are disclosed in Note 21 to the condensed consolidated financial statements.

OUTLOOK

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

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

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

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

APPRECIATION

In view of the above-mentioned internal and external factors, we believe the outlook remains challenging for the year ahead. Nevertheless, on behalf of the Board, I would like to express my deepest appreciation to all our dedicated colleagues, contractors and business partners for their non-stop contributions to and indulgence on us.

Finally, I would also like to extend my sincere gratitude for the long-term continuing support of our customers and shareholders.

Lo Lin Shing, Simon
Chairman
Hong Kong, 29 November 2017

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the Financial Period (2016: Nil).

DIRECTORS' INTERESTS

As at 30 September 2017, the interests or short positions of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of securities on the Stock Exchange (the "**Listing Rules**") were as follows:

Long positions in the shares and underlying shares of the Company

	Number of shares			Number of underlying shares			
Name of Directors	Personal interests	Spouse interests	Corporate interests	Personal Interests pursuant to share options	Corporate interests	Total interests	Percentage of shareholding
Mr. Lo Lin Shing, Simon ("**Mr. Lo**")	1,240,000	437,500	301,519,575 *(Note 1)*	38,750,000	716,853,496 *(Note 1)*	1,058,800,571	56.28%
Ms. Yvette Ong	272,500	–	–	16,250,000	–	16,522,500	0.88%
Mr. To Hin Tsun, Gerald	1,350,000	–	–	8,125,000	–	9,475,000	0.50%
Mr. Lo, Rex Cze Kei	–	–	–	15,000,000	–	15,000,000	0.80%
Mr. Tsui Hing Chuen, William *JP*	125,000	–	–	8,125,000	–	8,250,000	0.44%
Mr. Lau Wai Piu	50,300	–	–	8,125,000	–	8,175,300	0.43%
Mr. Lee Kee Wai, Frank	–	–	–	5,000,000	–	5,000,000	0.27%

Note:

*(1) Golden Infinity Co., Ltd. ("**Golden Infinity**"), a company wholly-owned by Mr. Lo, held the shares and underlying shares respectively.*

Save as disclosed above and in the section headed "**SHARE OPTION SCHEME**", as at 30 September 2017, none of the Directors, chief executive and their respective associates had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS/ OTHER PERSONS UNDER THE SFO

The register of interests in shares and short positions maintained under Section 336 of the SFO showed that as at 30 September 2017, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

Long position of substantial Shareholders/other persons in the shares and/or underlying shares

Name of Shareholders	Number of shares and/or underlying shares: Beneficial/Personal interests	Spouse interests	Corporate interests	Total interests		Percentage of nominal value of issued share capital
Cheng Yu Tung Family (Holdings) Limited	–	–	3,260,224,374	3,260,224,374	(Note 1)	173.30%
Cheng Yu Tung Family (Holdings II) Limited	–	–	3,260,224,374	3,260,224,374	(Note 1)	173.30%
Chow Tai Fook (Holding) Limited	–	–	3,260,224,374	3,260,224,374	(Note 1)	173.30%
Chow Tai Fook Capital Limited	–	–	3,260,224,374	3,260,224,374	(Note 1)	173.30%
Chow Tai Fook Nominee Limited	3,260,224,374	–	–	3,260,224,374	(Notes 1 & 2)	173.30%
Ms. Ku Ming Mei, Rouisa	437,500	1,058,363,071	–	1,058,800,571	(Note 3)	56.28%
Golden Infinity	1,018,373,071	–	–	1,018,373,071		54.13%
Mr. Och Daniel Saul	–	–	620,853,039	620,853,039	(Note 4)	33.00%
Och-Ziff Capital Management Group LLC	–	–	620,853,039	620,853,039	(Note 4)	33.00%
OZ Management LP	–	–	620,853,039	620,853,039	(Note 4)	33.00%
OZMD IR, LLC	–	–	413,898,046	413,898,046	(Note 4)	22.00%
Sculptor Finance (MD) Ireland Designated Activity Company (formerly known as Sculptor Finance (MD) Ireland Limited)	413,898,046	–	–	413,898,046	(Note 4)	22.00%
OZAS IR, LLC	–	–	188,138,092	188,138,092	(Note 4)	10.00%
Sculptor Finance (AS) Ireland Designated Activity Company (formerly known as Sculptor Finance (AS) Ireland Limited)	188,138,092	–	–	188,138,092	(Note 4)	10.00%
Dr. Cheng Kar Shun	–	19,775,000	78,892,500	98,667,500	(Note 5)	5.24%
Ms. Ip Mei Hing	–	78,892,500	19,775,000	98,667,500	(Note 5)	5.24%

Notes:

1. *Chow Tai Fook (Holding) Limited held 99.7% interest in Chow Tai Fook Nominee Limited. 81.03% interest of Chow Tai Fook (Holding) Limited was held by Chow Tai Fook Capital Limited in which it was held as to 48.98% by Cheng Yu Tung Family (Holdings) Limited and as to 46.65% by Cheng Yu Tung Family (Holdings II) Limited. By virtue of the SFO, each of Cheng Yu Tung Family (Holdings II) Limited, Cheng Yu Tung Family (Holdings) Limited, Chow Tai Fook Capital Limited, Chow Tai Fook (Holding) Limited, and Chow Tai Fook Nominee Limited was deemed to be interested in 3,260,224,374 shares.*
2. *Among 3,260,224,374 shares held by Chow Tai Fook Nominee Limited, 3,205,224,374 shares were underlying shares.*
3. *Ms. Ku Ming Mei, Rouisa, the spouse of Mr. Lo, was deemed to be interested in 1,058,363,071 shares owned by Mr. Lo beneficially, under the SFO.*
4. *OZAS IR, LLC ("**OZAS**") held 100% interest in Sculptor Finance (AS) Ireland Designated Activity Company and OZMD IR, LLC ("**OZMD**") held 100% interest in Sculptor Finance (MD) Ireland Designated Activity Company. OZAS and OZMD were 100% held by OZ Management LP. The entire interest of OZ Management LP was ultimately held by Och-Ziff Capital Management Group LLC, in which Mr. Daniel Saul Och was interested in 65.1% of its interest. By virtue of the SFO, each of Mr. Daniel Saul Och, Och-Ziff Capital Management Group LLC, and OZ Management LP was deemed to be interested in 620,853,039 shares.*
5. *Dr. Cheng Kar Shun was interested in the entire issued share capital of Dragon Noble Group Limited ("**Dragon**"). By virtue of the SFO, he was deemed to be interested in 78,892,500 shares held by Dragon and 19,775,000 shares were owned by Ms. Ip Mei Hing (the spouse of Dr. Cheng Kar Shun) through her controlled corporation Brighton Management Limited.*

Save as disclosed above and those disclosed under "**DIRECTORS' INTERESTS**", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 30 September 2017.

SHARE OPTION SCHEME

Under the share option scheme adopted by the Company on 30 August 2012 (the "**Share Option Scheme**"), options were granted to certain Directors, employees and other eligible participants of the Company entitling them to subscribe for shares of HK$0.02 each in the capital of the Company.

Details of the movement in outstanding share options, which have been granted under the Share Option Scheme, during the Financial Period were as follows:

					Number of shares subject to options				
Name or category of participants	Date of Grant	Exercise Price HK$	Exercise period	Vesting Period	As at 1 April 2017	Granted during the period	Lapsed during the period	Exercised during the period	As at 30 September 2017
Mr. Lo	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	3,750,000	–	–	–	3,750,000
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	17,000,000	–	–	–	17,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	18,000,000	–	–	18,000,000
Ms. Yvette Ong	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	1,250,000	–	–	–	1,250,000
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	5,000,000	–	–	–	5,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	10,000,000	–	–	10,000,000
Mr. To Hin Tsun, Gerald	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	125,000	–	–	–	125,000
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	3,000,000	–	–	–	3,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	5,000,000	–	–	5,000,000
Mr. Lo, Rex Cze Kei	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	15,000,000	–	–	15,000,000
Mr. Tsui Hing Chuen, William JP	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	125,000	–	–	–	125,000
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	3,000,000	–	–	–	3,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	5,000,000	–	–	5,000,000
Mr. Lau Wai Piu	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	125,000	–	–	–	125,000
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	3,000,000	–	–	–	3,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	5,000,000	–	–	5,000,000
Mr. Lee Kee Wai, Frank	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	5,000,000	–	–	5,000,000
Employees and others in aggregate (including a director of certain subsidiaries)	08-04-2013	1.280	08-04-2013 to 05-09-2017	N/A	125,000	–	(125,000)	–	–
	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	5,875,000	–	–	–	5,875,000
	09-09-2015	0.251	09-09-2015 to 05-09-2017	N/A	3,000,000	–	(3,000,000)	–	–
	09-09-2015	0.251	09-09-2015 to 08-09-2020	N/A	16,000,000	–	–	–	16,000,000
	01-09-2017	0.226	01-09-2017 to 31-08-2022	N/A	–	80,000,000	–	–	80,000,000
TOTAL					61,375,000	143,000,000	(3,125,000)	–	**201,250,000**

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

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

CORPORATE GOVERNANCE REPORT

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 growth of a company under a healthy governance structure and strengthen the confidence of the shareholders and investors.

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

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

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

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

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

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

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

COMPLIANCE WITH MODEL CODE FOR SECURITIES 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 in Appendix 10 to the Listing Rules. The Code is sent to each Director on his/her initial appointment and from time to time when it is amended or restated.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "**Employees' Guidelines**") for securities transactions by relevant employees of the Group who are likely to be in possession of unpublished inside information of the Company. To date, no incident of non-compliance with the Employees' Guidelines by the Directors and the relevant employees was noted by the Company for the six months ended 30 September 2017.

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

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

During the period of thirty days immediately preceding and including the publication 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 enquiries by the Company, all the Directors have confirmed in writing that all they had complied with the required standards set out in the Model Code and the Code during the Financial Period.

HUMAN RESOURCES

As at 30 September 2017, excluding site and construction workers directly employed by our contractors, the Group employed 622 full-time employees in Hong Kong, Mongolia, and the PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on a periodic basis. Apart from the retirement scheme, staff 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.

AUDIT COMMITTEE

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

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

BOARD OF DIRECTORS

As at the date of this report, the Board of the Company comprises the following members:

Executive Directors

Mr. Lo Lin Shing, Simon *(Chairman)*
Ms. Yvette Ong *(Managing Director)*

Non-executive Directors

Mr. To Hin Tsun, Gerald
Mr. Lo, Rex Cze Kei

Independent Non-executive Directors

Mr. Tsui Hing Chuen, William *JP*
Mr. Lau Wai Piu
Mr. Lee Kee Wai, Frank

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF MONGOLIA ENERGY CORPORATION LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of Mongolia Energy Corporation Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 23 to 48, which comprise the condensed consolidated statement of financial position as of 30 September 2017 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Material Uncertainty Related to Group Concern

We draw attention to Note 1 to the condensed consolidated financial statements which indicates that as at 30 September 2017, the Group had net liabilities of approximately HK$4,105 million and net current liabilities of approximately HK$1,489 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 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. Our review conclusion is not modified in respect of this matter.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 November 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2017

		Six months ended 30 September	
		2017	**2016**
		HK$'000	**HK$'000**
	Notes	**(unaudited)**	**(unaudited)**
Revenue	*3*	**247,385**	140,251
Cost of sales		**(121,525)**	(88,746)
Gross profit		**125,860**	51,505
Other income	*4*	**2,283**	6,861
Other gains and losses	*5*	**(26,824)**	8,708
Administrative expenses		**(81,540)**	(44,060)
Changes in fair value on derivative component of convertible notes	*17*	**83,759**	65,730
Impairment loss on available-for-sale financial asset		**(29)**	(40)
Impairment loss on amount due from associate		**(4)**	(4)
Finance costs	*6*	**(301,398)**	(244,144)
Loss before taxation	*8*	**(197,893)**	(155,444)
Income tax expense	*7*	**–**	–
Loss for the period		**(197,893)**	(155,444)
Loss for the period attributable to owners of the Company		**(197,893)**	(155,444)
Loss per share attributable to owners of the Company	*10*		
– basic and diluted loss per share (HK cents)		**(10.52)**	(8.70)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

	Notes	30 September 2017 HK$'000 (unaudited)	31 March 2017 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*11*	**279,277**	256,115
Intangible assets	*11*	**26,089**	26,473
Exploration and evaluation assets	*12*	**190**	156
Interests in associates		**–**	–
Available-for-sale financial asset		**–**	–
Other asset		**1,150**	1,150
Prepaid lease payment		**491**	477
		307,197	284,371
Current assets			
Prepaid lease payment		**11**	10
Inventories	*13*	**77,790**	62,722
Trade and bills receivables	*14*	**120,043**	159,586
Other receivables, prepayments and deposits	*15*	**39,822**	34,761
Held-for-trading investments		**126,879**	156,713
Amounts due from associates		**–**	–
Cash and cash equivalents		**85,832**	14,197
		450,377	427,989
Current liabilities			
Trade payables	*16*	**90,397**	102,989
Other payables and accruals		**146,910**	147,403
Advances from a Director	*23(a)*	**1,692,254**	1,613,067
Other loan	*6*	**8,316**	7,755
Deferred income		**1,461**	1,352
		1,939,338	1,872,566
Net current liabilities		**(1,488,961)**	(1,444,577)
Total assets less current liabilities		**(1,181,764)**	(1,160,206)
Non-current liabilities			
Convertible notes	*17*	**2,913,806**	2,761,989
Deferred income		**9,279**	9,196
		2,923,085	2,771,185
Net liabilities		**(4,104,849)**	(3,931,391)
Financed by:			
Capital and reserves			
Share capital	*18*	**37,625**	37,625
Reserves		**(4,142,474)**	(3,969,016)
Capital deficiencies attributable to owners of the Company		**(4,104,849)**	(3,931,391)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2017

	Attributable to owners of the Company						
	Share capital HK$'000	**Share premium HK$'000**	**Contributed surplus HK$'000**	**Share options reserve HK$'000**	**Translation reserve HK$'000**	**Accumulated losses HK$'000**	**Total HK$'000**
At 1 April 2016 (unaudited)	35,735	23,350	3,451,893	35,848	(13,527)	(7,286,183)	(3,752,884)
Loss for the period	–	–	–	–	–	(155,444)	(155,444)
Other comprehensive income							
Exchange differences arising on translation	–	–	–	–	459	–	459
Total comprehensive income (expense) for the period	–	–	–	–	459	(155,444)	(154,985)
At 30 September 2016 (unaudited)	35,735	23,350	3,451,893	35,848	(13,068)	(7,441,627)	(3,907,869)
At 1 April 2017 (unaudited)	**37,625**	**51,463**	**3,451,893**	**17,510**	**(11,442)**	**(7,478,440)**	**(3,931,391)**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(197,893)**	**(197,893)**
Other comprehensive income							
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**2,535**	**–**	**2,535**
Total comprehensive income (expense) for the period	**–**	**–**	**–**	**–**	**2,535**	**(197,893)**	**(195,358)**
Equity-settled share-based payments *(Note 19)*	**–**	**–**	**–**	**21,900**	**–**	**–**	**21,900**
Share options lapsed *(Note 19)*	**–**	**–**	**–**	**(600)**	**–**	**600**	**–**
At 30 September 2017 (unaudited)	**37,625**	**51,463**	**3,451,893**	**38,810**	**(8,907)**	**(7,675,733)**	**(4,104,849)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2017

	Six months ended 30 September	
	2017 HK$'000 (unaudited)	2016 HK$'000 (unaudited)
Net cash from (used in) operating activities	83,639	(66,295)
Net cash used in investing activities:		
Purchase of property, plant and equipment	(25,796)	(4,427)
Other investing cash flows	230	33
	(25,566)	(4,394)
Net cash from financing activities:		
Advances from a Director	13,600	65,850
Other financing cash flows	–	4,174
	13,600	70,024
Net increase (decrease) in cash and cash equivalents	71,673	(665)
Cash and cash equivalents at beginning of the period	14,197	19,237
Effect of foreign exchange rate changes	(38)	(226)
Cash and cash equivalents at end of the period	85,832	18,346

1. BASIS OF PREPARATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

Segment revenue and result

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

For the six months ended 30 September 2017

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

Note:

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

3. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and result (Continued)

For the six months ended 30 September 2016

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

Note:

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

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

	30 September 2017 HK$'000	31 March 2017 HK$'000
Coal mining	610,754	541,000

4. OTHER INCOME

	Six months ended 30 September 2017 HK$'000	2016 HK$'000
Dividend income	1,094	–
Government grant	722	773
Interest income	69	45
Sale of scrap materials	–	5,569
Sundry income	398	474
	2,283	6,861

5. OTHER GAINS AND LOSSES

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

6. FINANCE COSTS

	Six months ended 30 September 2017 HK$'000	2016 HK$'000
Interest on advances from a Director *(Note 23(a))*	65,587	47,606
Interest on other loan *(Note)*	235	147
Effective interest expense on convertible notes *(Note 17)*	235,576	196,391
	301,398	244,144

Note:

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

7. INCOME TAX EXPENSE

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

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

Mongolian corporate income tax was calculated at 10% to the first Mongolian Tugrik 3 billion of annual taxable income and 25% on the remaining annual taxable income for both periods.

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

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

8. LOSS BEFORE TAXATION

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

	Six months ended 30 September	
	2017	**2016**
	HK$'000	**HK$'000**
Amortisation of intangible assets	**836**	830
Depreciation of property, plant and equipment	**4,046**	5,837
Less: amortisation and depreciation capitalised in inventories	**(2,577)**	(2,249)
	2,305	4,418
Employee benefit expenses, including Directors' emoluments (net of reimbursement from a related party) *(Note 23(c))*	**61,851**	40,307
Less: employee benefit expenses capitalised in inventories	**(11,528)**	(15,192)
	50,323	25,115
Operating lease rentals in respect of office premises (net of reimbursement from a related party) *(Note 23(c))*	**1,575**	1,448

9. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period (2016: Nil). The Directors do not recommend the payment of an interim dividend.

10. LOSS PER SHARE

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

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

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

Note:

The computation of diluted loss per share for both periods did not assume the exercise of share options or the conversion of the Company's outstanding convertible notes since assuming the exercise of the share options or the conversion of the convertible notes would result in a decrease in loss per share.

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

Property, Plant and Equipment

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

Intangible Assets

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

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

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. Using discounted cash flow analysis, key assumptions used in the calculation include the current selling price for coking coal, growth rate, discount rate and estimate timeline for commercial coal products.

The Directors instructed the Independent Valuer to use the information and assumptions provided by the mining contractors, including cost structure and production capacity of the Khushuut Related Assets. In pursuant to the recoverable amount assessment, the recoverable amount of the Khushuut Related Assets approximates its carrying amount for both periods.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Mining Prohibition Law (the "MPL") in Mongolia

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

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

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

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

12. EXPLORATION AND EVALUATION ASSETS

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

Notes:

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

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

12. EXPLORATION AND EVALUATION ASSETS (Continued)

Notes:

(a) *(Continued)*

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

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

(b) *Addition of mining and exploration rights represents an exploration concession acquired.*

(c) *Other represents the expenses incurred for the concession acquired as mentioned in note (b).*

(d) *Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for three successive periods of 3 years each and mining licences for two successive periods of 20 years each.*

13. INVENTORIES

	30 September 2017 HK$'000	31 March 2017 HK$'000
Coal	**74,052**	58,951
Materials and supplies	**3,738**	3,771
	77,790	62,722

14. TRADE AND BILLS RECEIVABLES

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

Note:

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

The Group allows a credit period of 30-60 days to its customers upon issue of invoices, except for new customers, where payment in advance is normally required. The following is an aged analysis of trade and bills receivables.

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

15. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 September 2017 HK$'000	31 March 2017 HK$'000
Other receivables	2,446	10,589
Prepayments	7,812	3,864
Deposits	2,697	1,711
Others	26,867	18,597
	39,822	34,761

16. TRADE PAYABLES

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

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

17. CONVERTIBLE NOTES

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

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

17. CONVERTIBLE NOTES (Continued)

2014 Convertible Notes with maturity date 21 November 2019

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

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

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

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

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

Notes:

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

(ii) The option life as at 30 September 2017 was based on the maturity date of the notes.

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

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

18. SHARE CAPITAL

Authorised and issued share capital

	Number of ordinary shares at HK$0.02 each	Amount HK$'000
Authorised:		
At 1 April 2016, 30 September 2016, 1 April 2017 and 30 September 2017	15,000,000,000	300,000
Issued and fully paid		
At 1 April 2016 and 30 September 2016	1,786,758,499	35,735
Exercise of share options	34,500,000	690
Placement of new shares	60,000,000	1,200
At 1 April 2017 and 30 September 2017	1,881,258,499	37,625

19. SHARE-BASED PAYMENT

Equity-settled share option scheme

Under the share option scheme adopted by the Company on 30 August 2012, options were granted to certain Directors and employees of the Group entitling them to subscribe for shares of the Company. Options may be exercised at any time from the date of grant of the share options.

As the fair value of the services cannot be estimated reliably, the Binomial Valuation Model has been used to estimate the fair value of the options.

Movements of share options outstanding are as follows:

	Number of share options
As at 1 April 2017	**61,375,000**
Granted	**143,000,000**
Lapsed	**(3,125,000)**
As at 30 September 2017	**201,250,000**

No share options were exercised during the period (2016: Nil).

19. SHARE-BASED PAYMENT (Continued)

The fair values of options granted during the six-month period ended 30 September 2017 were determined as follows:

	At 1 September 2017
Option value (at grant date)	HK$21,900,000
Fair value per option (at grant date)	HK$0.1531
Significant inputs into the valuation model:	
Exercise price	HK$0.226
Share price at grant date	HK$0.225
Expected volatility *(Note (a))*	87.85%
Risk-free interest rate	1.10%
Life of options	5 years
Expected dividend yield	0%
Valuation model applied	Binomial

Notes:

(a) The expected volatility is with reference to historical price volatility of the Company over the expected option period.

(b) HK$21,900,000 expense in relation to share options granted was recognised during the six-month period ended 30 September 2017.

20. CAPITAL COMMITMENTS

Capital commitments contracted for but not provided for in the condensed consolidated financial statements are as follows:

	30 September 2017 HK$'000	31 March 2017 HK$'000
Construction of new stockpile area	7,917	–
Other exploration related commitments	253	253
Purchase of property, plant and equipment	8,874	7,646
Road improvement and drilling equipment transport	11,968	11,968
Wash plant	7,882	7,249
Others	336	297
	37,230	27,413

21. CONTINGENT LIABILITIES

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

The former mining contractor issued two writ of summons on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK$93.7 million. In May 2015, the former mining contractor applied to Court to amend its statements of claim under the two writs by amending, among others, (i) the currency of the claims from Mongolian Tugrik to United States dollars; and (ii) the amount of the claim to include the alleged contractor's fees up to October 2014. According to amended statements of claim, two writ of summons make the total claims at approximately HK$198.9 million. In April 2016, a mediation meeting between the Company and the former mining contractor was held before a mediator but the parties were unable to reach a settlement agreement, thus the mediation was terminated and the legal proceedings moved on. In September 2016, the Company received a revised statement of claim consolidating the two actions with a claim amount of approximately HK$105.6 million from the former mining contractor, of which approximately HK$50.0 million was provided for in the condensed consolidated financial statements as at 30 September 2017 (2016: HK$50.0 million). Based on the opinion provided by legal counsel of the Company, the Directors consider that the payment of the remaining balance is not probable.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group's held-for-trading investments and embedded derivative component of convertible notes are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical asset or liability.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ financial liabilities	Fair value as at 30 September 2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Listed equity securities classified as held-for-trading investments	HK$126,879,000 (31 March 2017: HK$156,713,000)	Level 1	– Quoted bid prices in an active market	N/A	N/A
2) Embedded derivative component of convertible notes	HK$214,487,000 (31 March 2017: HK$298,246,000)	Level 3	– Binomial Valuation Model – The key inputs are share price, exercise price, time to maturity, risk free rate, volatility and dividend yield	Volatility is 84.52% (31 March 2017: 82.02%)	A slight increase in volatility would result in significant higher fair value measurement, and vice versa *(Note)*

There was no transfer between all Levels in both periods.

Note:

If the volatility of listed share prices of the Company had been 5% (2016: 5%) higher or lower and all other input variables of the valuation model were held constant, the Group's loss for the period would increase by HK$23,168,000 (2016: loss for the period would increase by HK$30,542,000) or decrease by HK$35,988,000 (2016: loss for the period would decrease by HK$31,335,000), as a result of changes in fair value of the derivative component of the convertible notes.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Reconciliation of Level 3 fair value measurements of financial liabilities

	Embedded derivatives component of convertible notes HK$'000
At 1 April 2016	534,217
Changes in fair value recognised in profit or loss	(235,971)
At 31 March 2017	**298,246**
Changes in fair value recognised in profit or loss	**(83,759)**
At 30 September 2017	**214,487**

The fair value gain recognised for the period included in profit or loss relates to the embedded derivative component of convertible notes held at the end of the current reporting period.

In estimating the fair value of the Group's embedded derivative component of convertible notes, the Group uses market-observable data to the extent they are available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuations at the end of each reporting period. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs to the valuation model. Where there is a material change in the fair value of the assets or liabilities, the cause of fluctuations will be reported to the Directors.

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

23. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the condensed consolidated financial statements, significant related party transactions are as follows:

(a) Advances from Mr. Lo

	30 September 2017 HK$'000	31 March 2017 HK$'000
Balance of advances *(Note)*	1,692,254	1,613,067

	Six months ended 30 September 2017 HK$'000	2016 HK$'000
Interest charge for the period	65,587	47,606

Note:

The advances are related to the facility granted by Mr. Lo as set out in Note 1. The amounts are unsecured and repayable on demand. Mr. Lo does not intend to demand repayment until the Company has sufficient cash to make repayment. Interest is charged at the Hong Kong Prime Rate (Prime Rate) plus 3% for both periods.

(b) Convertible note and interest charge on convertible note by a related party – Golden Infinity

	30 September 2017 HK$'000	31 March 2017 HK$'000
Convertible note, at carrying amount	468,883	458,663

	Six months ended 30 September 2017 HK$'000	2016 HK$'000
Interest charge on convertible note for the period *(Note (ii))*	8,157	8,157

Notes:

(i) Mr. Lo has a controlling interest in Golden Infinity. Details of the convertible notes issued to Golden Infinity are set out in Note 17.

(ii) Amount represents nominal interest charge on convertible note. The effective interest expense on convertible note for the period is approximately HK$36,849,000 (2016: HK$30,720,000).

23. RELATED PARTY TRANSACTIONS (Continued)

(c) Transactions with related parties

	Six months ended 30 September 2017 HK$'000	2016 HK$'000
Rental expenses paid to related parties *(Note i)*	2,159	2,065
Reimbursement of sharing of administrative services from a related party *(Note i & ii)*	4,956	5,048

Notes:

(i) Mr. Lo is one of the Directors or the sole Director of the related parties.

(ii) On 10 July 2015, the Group entered into a share of administrative service agreement with a related party in relating to sharing of office space of the Group's Hong Kong office, supporting staff and other facilities. The service is charged at cost basis. The Group further renewed the contract with the related party on 30 June 2017 and extended the agreement for a period of 1 year.

(d) Balance with related parties

	30 September 2017 HK$'000	31 March 2017 HK$'000
Rental deposits paid to related parties *(Note i)*	425	393

Note:

(i) Mr. Lo is one of the directors or the sole director of the related parties.

23. RELATED PARTY TRANSACTIONS (Continued)

(e) Key management compensation

The remuneration of Directors and other members of key management during the period was as follows:

	Six months ended 30 September	
	2017	**2016**
	HK$'000	**HK$'000**
Basic salaries, other allowances and benefits in kind	5,497	5,265
Equity-settled share-based payments *(Note)*	9,648	–
Contributions to Mandatory Provident Fund Scheme	18	18
	15,163	5,283

Note:

During the six months ended 30 September 2017, 63,000,000 share options were granted to the Group's key management (2016: Nil).