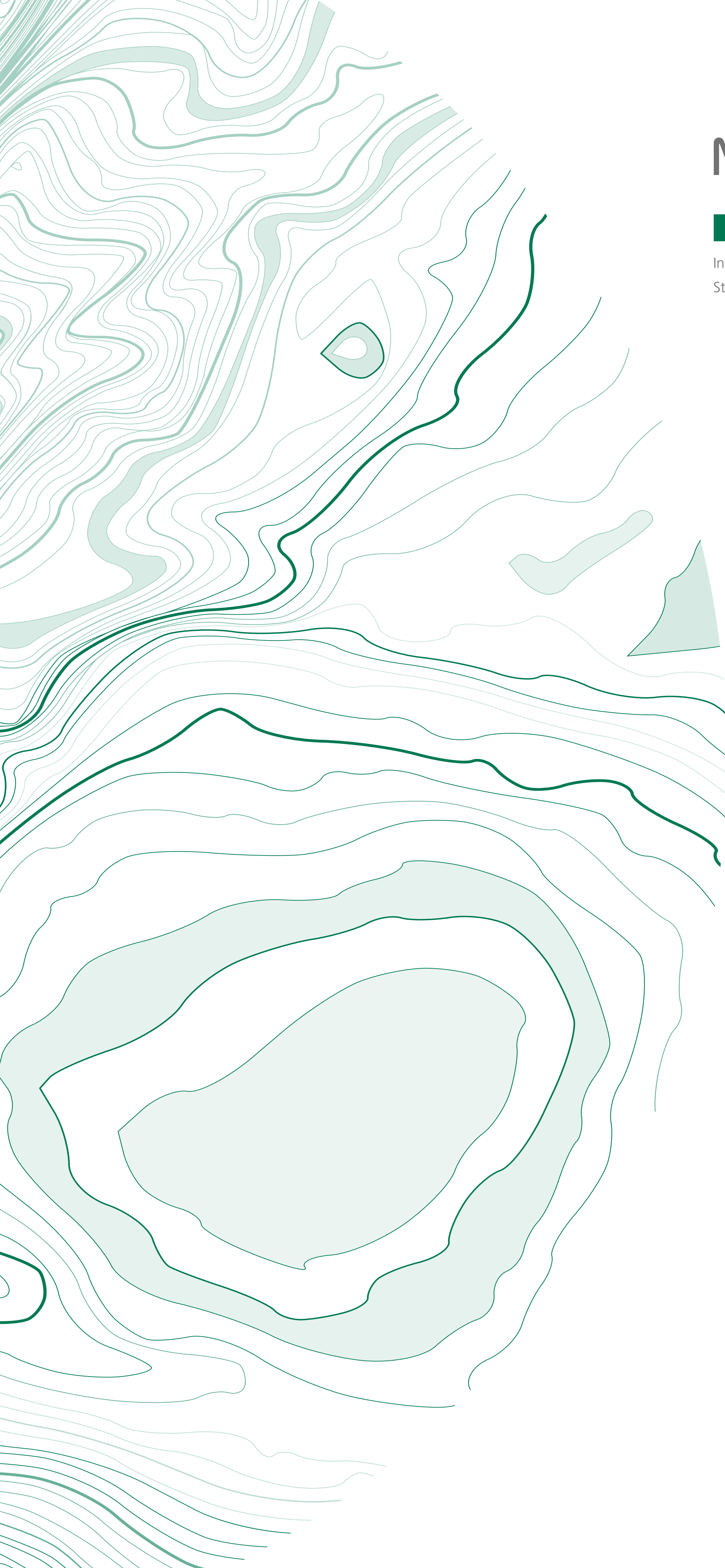


MEC

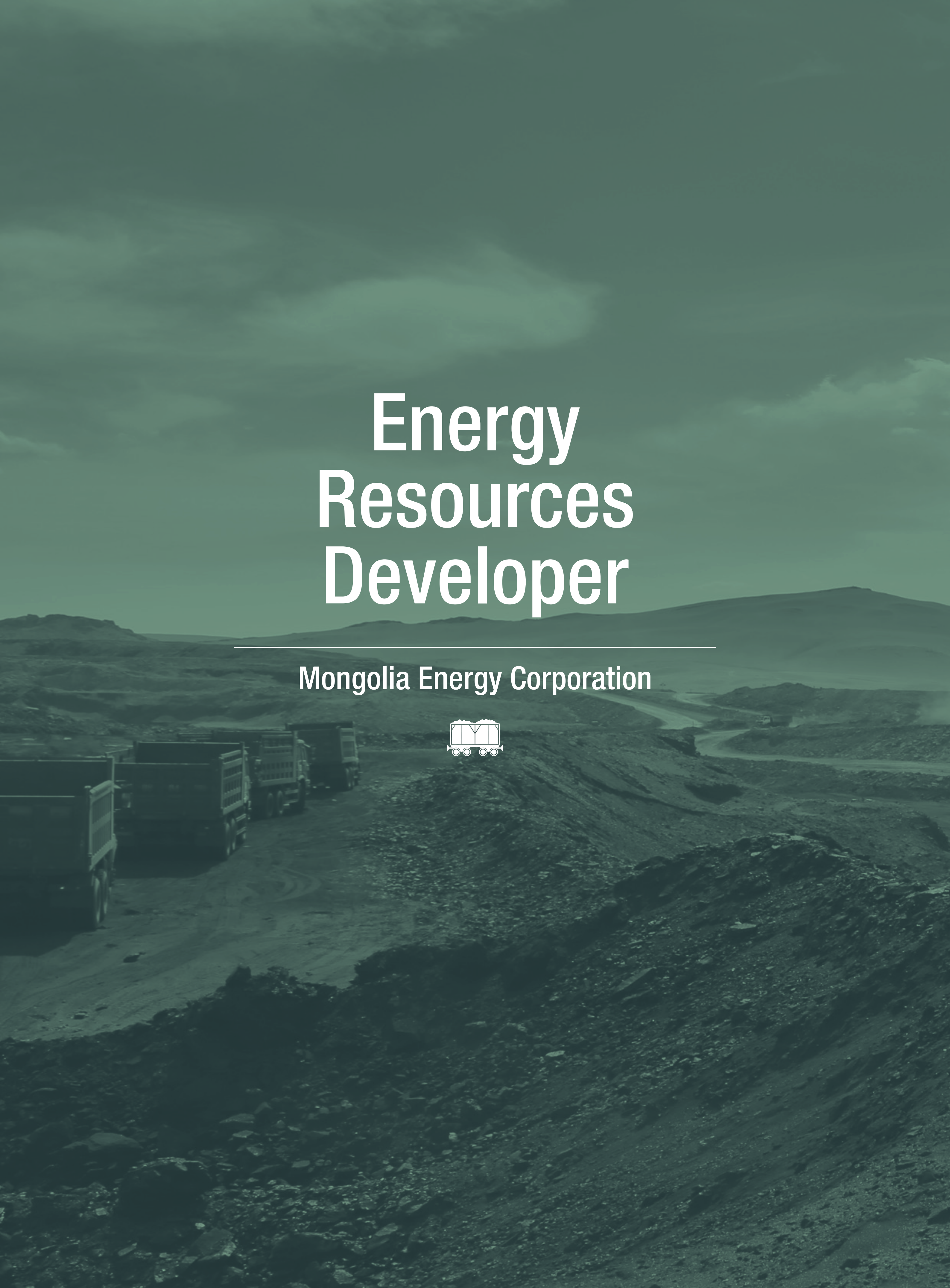
MONGOLIA ENERGY CORPORATION

蒙 古 能 源 有 限 公 司

Incorporated in Bermuda with limited liability

Stock Code: 276

ANNUAL REPORT 2016



Energy Resources Developer

Mongolia Energy Corporation

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Report contains certain forward-looking statements and opinions with respect to the operations and businesses of MEC. 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 are based on MEC's own information and on information from other sources which MEC 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 and form part of this document and as qualification to the statements relating to the relevant subject matters. Neither MEC nor its directors and employees assume any liability in the event that any forward-looking statements or opinions do not materialize or turn 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 Statement

CHAIRMAN'S STATEMENT

Dear Shareholders,

2015 was another challenging year for the Group. The bleakness of the world economy continued to play its role, affecting both the crude oil and commodity prices globally. The Chinese economy suffered from another slow economic growth last year. Shrinkage of its construction sector and real estate market, in particular, contributed to a slowdown in China's manufacturing and affected the demand of steel.

The coking coal market in China was weak as a consequence of the oversupply of steel. The demand-supply imbalance drove the price of coking coal further down. The coal and steel industries are now the main areas where the Chinese government is trying to slash overcapacity to weed out poor performers. The government will strictly control credit availability for new projects to limit the production capacity in the coal and steel sectors. Nevertheless, the Chinese government recognises the importance of these industries which remain as key drivers of the economy, financial companies are urged to extend credit in order to help the healthy players to stay in the industries as well as expand abroad.

In the 2015 Financial Year, we continued to operate in a difficult market environment. While adopting an optimistic view for gradual revival in the coking coal market, we continued our stringent controls in costs on our overall operations. During the Financial Year, 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 limited the volume of coal extracted without further removing the topsoil of our target coal seam. In April this year, we re-engaged our former overburden removal contractor to perform the topsoil stripping works.

Despite the harsh market conditions, we sold approximately 233,200 tonnes of clean coking coal to our customers in China. Although the sales figure was far from optimal, the quality of our products was generally endorsed by our customer, and we are pleased to have concluded a coal supply contract for 2016 with it. As our actual coal production and delivery will depend on the then prevailing market price of coking coal which, at present, is still swinging in the lower level, supply of our coal is still subject to changes. We anticipate the gloomy economic trend will continue and the coking coal prices in China will remain stagnant throughout 2016. In the short term, the likelihood of a rebound in price and demand of coal still remains to be seen.

As the future performance of the coal market is not within our grasp, our priority tasks for the time being are to preserve the working capital and reduce the costs and expenses of our operations. We will monitor the market developments closely to adjust our operation strategies in response during this period.

Throughout this challenging year, our operation teams had effectively lowered our costs and did away with all unnecessary expenses, thus maintained us in operation under budgeted controls. The results are attributed to our devoted and hard-working staff who worked diligently and effectively as a team. I take this opportunity to show my appreciation for their continuous efforts and contributions. I believe they will continue to cope with the challenges ahead. In addition, I would like to extend my gratitude to our contractors who have been very supportive to us in our mining operations. I would also like to thank all our stakeholders for their persistent and tireless support in driving us forward.

Lo Lin Shing, Simon
Chairman

27 June 2016

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**" or "**China**"), 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 the PRC was dampened. The coking coal prices in the 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.

MARKET REVIEW

The principal market for our coal products is China. Our coal products are mainly coking coal.

Coking coal, also known as metallurgical coal, is principally used in steel industry. It is a vital ingredient in the steel making process. Therefore, it is subject to the volatility of the steel market which is in turn affected by the world economy. According to the outlook for 2016 and 2017 released by the World Steel Association, it forecasted that the global steel demand would decrease by 0.8% to 1,488 million tonnes in 2016 following a contraction of 3.0% in 2015. It also forecasted that the world steel demand would return to growth of 0.4% and reach 1,494 million tonnes in 2017. The main reason for the fall was due to the continuous deceleration of the Chinese economy. The severe depression in construction activities in China has been contributing to a slowdown in the manufacturing sector, especially metal products, as well as slower growth in automotive. The World Steel Association further commented that a recovery for the construction sector would not take place in the near future. The decline in steel demand in China is expected to be 4.0% in 2016 followed by 3.0% in 2017, suggesting a demand of 626.1 million tonnes of steel for 2017, a contraction to 41.9% of world steel use from 47.9% in 2009 and 44.8% in 2015.

The volatility of the financial and currency markets has continued to weaken the global economy. As a result of the economic slowdown and gloomy investment environment, the coal market performance in general was weak in China during the Financial Year. The oversupply of steel in China in relation to demand remains and continues to drive the price of coking coal down.

According to data from the National Bureau of Statistics of the PRC released in January 2016, China's coal mining and washing industry posted a profit slump of 65.0% year on year to RMB44.1 billion in 2015. During the same period, the realized revenue was RMB2.5 trillion, dropping 14.8% year on year. Total profit of the entire mining industry was declined by 58.2% year on year to RMB260.4 billion in 2015.

According to the General Administration of Customs of the PRC, China's coking coal imports fell 23.1% year on year to 47.8 million tonnes last year, with a plummet of 41.2% in value year on year to US$3.8 billion. These illustrate a weak demand of coking coal in general domestically for the steel sector.

Meanwhile, China exported 970,000 tonnes of coking coal in 2015, surging 21.5% year on year, with a value of US$103.9 million, up 2.9% year on year. This signifies that despite a weak internal market in China, the coking coal price became stable and has been on an upward trend, many coal producers turned to maintain their liquidity by exporting surplus coking coal elsewhere.

In the first quarter of 2016, China's coking coal imports climbed 4.9% to 11.43 million tonnes; the value of the imports was US$743.2 million, falling 24.5% year on year. This shows that the imbalance on the demand has been improving but the price remains weak. In relation to export in the first quarter of 2016, China's coking coal exports stood at 370,000 tonnes, rising 14.8% year on year; while the total value of the exports slid 13.2% year on year to US$33.0 million.

It is the policy of China that the steel and coal industries are now the main areas where the Chinese government is trying to slash overcapacity, and no new coal mines will be allowed in China in the next three years in principle. Nevertheless, the Chinese government recognizes the importance of these industries which remain as key drivers of the economy, it urges the financial companies to extend credit to help the healthy players to stay in the industries and to go abroad.

Therefore, the principal measure of the Group in the operation is to preserve our cash position to ensure that we have sufficient working capital for our business in the ordinary course. The Company will continue to review its coal operation in the prevailing economic climate.

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 process 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. 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, approximately 372,500 tonnes of ROM coal were processed by the DPP, producing approximately 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, approximately 335,300 tonnes of raw coking coal were processed by the coal washing plant, producing approximately 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 licence 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 section headed "**EXPLORATION AND MINING CONCESSIONS OF THE GROUP**" on page 17 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, to support 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 the foreign policies, support the creation of favourable external environment, and intensify 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 imposing 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 the 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.

The relevant laws and regulations having significant impact on our operation include Minerals Law and various laws on the environmental protection such as Law on Environmental Protection, Law on Environmental Impact Assessment, the 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 35 to the consolidated financial statements.

RISK FACTORS

The Group's business may from time to time face with certain risk factors; some of them may not be anticipated by or known to the Group. These factors include, among others, the following:

Cyclical nature of coal markets and fluctuations in coal prices

The revenue of our operation depends on successful commercial production of coal products in our concession areas. Therefore, our future business and results of operations are dependent on the supply and demand of coal globally, in particular, the PRC.

The fluctuation in supply and demand of coal can be caused by numerous factors beyond the Group's control, which include but not limited to:

(i) global and domestic economic and political conditions and competition from other energy sources; and

(ii) the rate of growth and expansion in industries with high demand for coal, such as steel and power industries.

There is no assurance that the demand of the PRC, which we assume as our major market, for coal and coal related products will continue to grow, or that the demand for these products will not experience excess supply.

Development of a mining project may take time and factors affecting its development

In a nutshell, development of a mining project will take time, often through years, and this includes going through the process of reconnaissance, exploration, deposit analysis, and mine planning. There is no guarantee that a planned development may overcome all challenges encountered during these processes. Ultimate commercial viability of a project will depend on whether the deposit is of the desired attributes, proximity to potential markets, availability of infrastructure and transportation networks, labour costs and availability, competition of other energy resources, and global economic conditions. Government regulations and policies such as taxes and royalties may also have a direct or indirect impact on encouraging or discouraging investment in the mining sector.

Not all planned projects may achieve the intended economic benefits or demonstrate commercial feasibility

In the course of development of a project, the Group may change its planning from time to time due to some unforeseeable circumstances. When this happens, the outcome, prospect, or financial position may be significantly affected.

Significant and continuous capital investment

Mining business requires significant and continuous capital investment. Planned mine exploration and coal production projects may not be completed as planned, may exceed the original budgets and may not achieve the intended economic results or commercial viability.

Actual capital expenditures for the projects may also differ from planned in the course of development. Such factors include locality and geology of the mine sites, method of excavation, availability of transportation networks, the ancillary infrastructure requirements and distance to the markets, etc.

Policies and regulations

Mining business is subject to extensive governmental regulations, policies, and controls. There can be no assurance that the relevant government will not change such laws and regulations, or impose additional or more stringent requirements. Failure to comply with the relevant laws and regulations in any mine development and coal production projects may adversely affect the Group. Some of the relevant laws and regulations in Mongolia are as follows:

Minerals Law

Under the Minerals Law, mineral exploration licences are granted for an initial period of three years. Holders may apply for an extension of the licences for three successive additional periods of three years, making twelve years in total. Renewal of licences must be made timely and subject to payment of annual licence fee. The Minerals Law also states the licence holders are obligated to meet a minimum exploration expenditure requirement. Failure to meet these requirements may subject to licence cancellation by the Mongolian authorities. The mining licence for coal is granted for an initial term of thirty years with an option for two further extensions of twenty years, making seventy years in total. The Mongolian authorities may also impose moratorium on any licences if the holders are in breach of any relevant laws in Mongolia.

Mining Prohibition Law

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.

Under the MPL, new exploration licences and mining licences overlapping the defined prohibited areas will not be granted, while previously granted licences that overlap the defined prohibited areas will be terminated within five months following the adoption of the law. The MPL further states that affected licence holders shall be compensated.

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.

Since the passing of the MPL on 16 July 2009, our mining and exploration activities have been conducted as usual and not affected by the MPL. Based on the best knowledge of the management, none of our existing licences have been revoked under the MPL.

The government of Mongolia adopted Resolution No. 299 on 17 November 2010 which sets out the procedures to be used in granting compensation to holders of mineral licences affected by the MPL. The purpose of the Resolution No. 299 is to remove any overlapping with prohibited areas and make any necessary changes to the coordinates of the licence area or revoke the licence if deemed necessary, and grant compensation to the licence holder.

Under Article 17.4 of the Minerals Law, the size of area granted by an exploration licence must not be less than 25 hectares but must not exceed 400,000 hectares. Under Article 24.4.1 of the Minerals Law, mining area shall have the shape of a polygon with borders that are straight lines, not less than 500 meters in length, oriented north-south and east-west. In this connection, if a mineral licence is compliant with the respective provisions of the Minerals Law following determination and removal of any overlapping areas with prohibited areas under the MPL and the making of relevant revisions to the coordinates to such mineral licence, then such mineral licence will remain valid less the overlapping area.

Article 3.1 of Resolution No. 299 provides that compensation shall be granted for the area which overlaps the prohibited areas under the MPL. Our Mongolian legal advisers advised us that some of our licences have been in overlapping with the forest and head water areas under the MPL, please refer to our licence list in this Report.

Changes have been introduced through amendments in 2015. The main change is that the licence holders may continue its operations subject to undertaking a number of obligations in respect of the protection and restoration of the environment. If the holders wish to operate in the affected areas, it should submit requests to the MRAM within three months from the effective date of amendments (16 March 2015) and also enter into an agreement with the Mongolian Ministry of Environment, Green Development and Tourism, the MRAM and the governor of the relevant province. The licence holders are required to deposit funds equal to the cost of environmental protection and restoration for the project. However, the amendments are only applicable to the "ordinary" protection zones rather than headwaters of rivers or other protected zones. The licence with areas overlapping with headwaters of rivers and other protected zones may still have the risks of revocation under the MPL.

Strategic Deposits

The Minerals Law states that a mineral deposit is of strategic importance if a deposit may have a potential impact on national security, economic, and/or social development of the country at regional and/or national levels, or that is capable of producing greater than 5% of the gross domestic product of any given year.

If a mine is ruled as a Strategic Deposit, the Mongolian government could participate the interest in it. Under the said Minerals Law, the size of the government participation is determined largely by the level of state funding which had been provided for the exploration and development of any deposit. The government of Mongolia is entitled to participate up to 50% in the event that there has been a state funding of such deposit, and up to 34% if such deposit was discovered with private funds. In the event a Strategic Deposit is ruled, the Mongolian government will negotiate with the entity concerned as to the mode or percentage of the government's participation and it will depend on the results of individual negotiations.

In order to boost the confidence of the investors, amendments have been made to the Minerals Law relating to Strategic Deposit in 2015. The amendments provide an option for the Mongolian Government either to take an equity interest in such deposits or to impose a special royalty in lieu of such interest. The exact amount of royalty to be levied will vary depending on the specifics of the deposits, but the maximum is 5% in addition to other royalties payable under the Minerals Law and supplementary legislation.

The Khushuut Coal Mine is not within the list of Strategic Deposits. However, there is no assurance that our Mine will not be considered for Strategic Deposit in the future.

Licence risk

The Minerals Law lists the following grounds for an immediate revocation of mineral licences:

(i) the licence holder is no longer in existence;

(ii) failure to timely and fully pay the licence fees;

(iii) the exploration or mining area has been designated as a special needs territory, or an exploration or mining activities have been prohibited in the licensed area by law and the licence holder has been fully compensated;

(iv) exploration expenditures of a given year are lower than the minimum exploration expenditure requirements set by the Minerals Law; or

(v) the state central administrative agency in charge of the environment (currently Ministry of Environment, Green Development and Tourism of Mongolia) has decided based on a report of the local administrative bodies that the licence holder has failed to fulfill its environmental reclamation obligations.

Further, a licence may be suspended if the licence holder fails to comply with other requirements of the Minerals Law and/or other relevant laws and regulations for up to three months in accordance with the Licensing Act, during which the licence holder is required to remedy such breach. If the licence holder fails to cure such breach, the licence can then be revoked.

Country risk

The business of the Group is currently in Mongolia and PRC with the target market in the PRC. There can be a risk relating to the likelihood that changes in the business environment will occur which reduces the profitability of doing business in Mongolia and/or the PRC. Changes of political and economic conditions in either Mongolia or the PRC may adversely affect the Group.

There is no assurance that the Group's assets or business will not be subject to nationalization, requisition or confiscation due to change of laws or political conditions.

Environmental protection policies

Mining and exploration business is subject to the Mongolian environmental protection laws and regulations. Under Article 66 of the Minerals Law, if a licence holder violates environmental protection legislation, the entity holding the licence may be fined or its activities suspended until it has complied with environmental and other regulations. In the worst case scenario, a licence may be revoked for non-compliance pursuant to Article 56 of the Minerals Law.

If the Group fails to comply with existing or future environmental laws and regulations, the Group may be required to take remedial measures, which could have a materially adverse effect on our business, financial conditions, and results of operations.

Operational risks

We require various contractors for the mining operations of our Khushuut Coking Coal Project. If there is any unforeseeable event which renders these contractors unable to continue providing their services and no effective solution is implemented, our operation may be seriously impacted. Our operation is also dependent on the fuel supply condition in Mongolia.

Political stability

The Parliament of Mongolia is the highest organ of State Power and the legislative power is vested solely in the Parliament. As a supreme government organ, the Parliament is empowered to enact and amend laws, ratify international agreements, and declare a state emergency. Specifically, the Parliament may consider on its initiative any issue pertaining to domestic and foreign policies of the State, and retains within its exclusive power, including but not limited to:

(i) enact new laws and make amendments to the laws;

(ii) define the State financial, credit, tax and monetary policies;

(iii) lay down guidelines for the country's economic and social development;

(iv) approve the government's program of action, the state budget and the report on its execution; and

(v) supervise the implementation of laws and other decisions of the Parliament.

The Parliament meets semi-annually. The Parliament members elect a chairman and a vice chairman who each serves a four-year term. The Parliament members are elected by district for a four-year term.

The Mongolian Parliament used to adopt a policy to welcome international investors to invest and develop its mining sector, and have favourable policies on mining developers. However, there is no guarantee that the Parliament will not change its existing policies or adopt a more conservative or restrictive policy on the mining sector in future.

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 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.

EXPLORATION AND MINING CONCESSIONS OF THE GROUP

The information of the Group's exploration and mining concession areas in Western Mongolia for coal and ferrous resources during the Financial Year is as follows:

Licence (licence no.)	**Location** (resources)	**Mine Area (approximate)** (hectare)[Δ]	**Date of issuance**	**Licence valid period**	**Development status/ Remarks**
	(coal resources)				
1414A 1640A 4322A 6525A 11887A 11888A[#] 15289A 20299A[#]	Khovd, Western Mongolia	1,885	30 December 1998 25 May 1999 23 April 2002 7 November 2003 14 August 2006 14 August 2006 23 November 2009 4 December 2015	70 years for Mining Licences (A)▲▲	Approximately 141 million tonnes of in-place resources according to JORC standards are reported*
2913A	Olon Bulag, Western Mongolia	38	26 January 2001	70 years for Mining Licence (A)▲▲	No imminent plan for mining operation
	(ferrous resources)				
14349X	Bayan-Ulgii, Western Mongolia	2,983	24 October 2008	12 years for Exploration Licence (X)▲	To seek potential buyer
Total Hectares		**4,906**			

Δ *1 hectare = 10,000 square metres*

▲ *(X) stands for exploration licence, which is for three years with three further extensions of three years.*

▲▲ *(A) stands for mining licence, which is for thirty years with two further extensions of twenty years.*

\# *During the Financial Year, the original licence no. 11888A, after the surrender of the affected areas under the MPL, was divided into two mining licences, licence nos. 11888A and 20299A.*

* *The resource estimation of the Khushuut Coal Mine is based on "reasonable prospects for eventual economic extraction" by using the following parameters:*

(a) Open-pit mining method;

(b) Maximum mining depth of 400 meters;

(c) Raw coal density as determined from the analytical data. The average density for the B and C seams is 1.45;

(d) Minimum mineable seam height of 1.5 meters; and

(e) Coal estimates are on raw coal basis, which include all coal and partings less than 0.1 meter, non-coal parting measuring of 0.3 meter or less are mined with coal.

Sustainability Report

At MEC, we aim to create long-term values and benefits for our stakeholders and the communities in which we operate. We are delighted to report our sustainability efforts and our commitment to the sustainable development in this section.

OUR VALUES

MEC's Sustainability Values are driven by integrity and responsibility:

TRANSPARENCY **O**PPORTUNITY

COMMUNITY **A**CTION **R**ESPONSIBILITY **E**DUCATION

T: We ensure the disclosure of relative information in a prompt and frank manner to our stakeholders.

O: We intend to seek the best potential outcome in each situation to create a better future for our Company and stakeholders.

C: We are keen to create a sense of unity through shared common goals and interests, not only with our shareholders, but also with our employees and local communities.

A: We do what are necessary to achieve our goals without compromising any of our core values and beliefs.

R: We abide by our Company's moral obligations and the regulations of our host countries, and are always accountable for our actions.

E: We take pride in sharing our values and knowledge with all of our stakeholders, and believe that there is much we can learn from each other.

SUSTAINABILITY PERFORMANCE

Corporate Governance

MEC maintains the highest ethical standards when making decisions to protect the interests of the Company and our shareholders. MEC operates in several jurisdictions with different legal and regulatory requirements. Compliance with local laws, legal and regulatory requirements is always our top priority. MEC believes that good governance principles and practices are integral to every business. During the Financial Year, the Company fully adhered to the principles contained in the Corporate Governance Practices Manual, including the Company policies, the Code for Securities Transactions by Directors, the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules, and the Employees' Guidelines. The Board has the responsibility to review and maintain the corporate governance to ensure our Group is consistently conducting the business in a socially responsible and ethical manner, as well as handling alleged unethical conducts and violation of rules promptly and discreetly.

Anti-corruption

MEC upholds high standards on promoting anti-corruption, with all its employees and directors required to maintain a high level of business ethics. The Company is committed to preventing, detecting and reporting all types of fraud including bribery and corruption. The Audit Committee of the Company has the responsibility to review and raise concerns about possible improprieties in financial reporting, internal control and other matters. During the Financial Year, no incidents regarding bribery, corruption or unethical behavior were recorded or identified.

Stakeholder Engagement

Stakeholder engagement is an important process to stay connected with our customers, employees, shareholders, suppliers, contractors, governmental authorities, and local communities in which we operate. MEC is committed to regular communications with our stakeholders. We maintain a high corporate transparency through timely disclosure of financial results, company updates, corporate announcements, and business developments in accordance with all relevant legislations and regulations. News and developments as required for disclosure under the Listing Rules are timely made through public announcements which are uploaded to our website and the website of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). We maintain two-way communications with our shareholders through annual general meeting, company's hotline and email contacts.

In Mongolia, we regularly hold meetings with the government authorities and the local community representatives for the purpose of disclosing our project related information, listening to their opinions and identifying their needs, and providing support to the concerned parties in a transparent manner. We welcome our customers, business partners and government officials to carry out site visits at our coal mine in Khushuut and our coal washing plant in Xinjiang to understand our production and operation process.

Workplace Quality

Employees are the driving force for the sustainable growth of MEC. We place great importance on providing a fair and safe workplace environment for all of our employees.

Human Rights

MEC provides equal employment opportunities without bias towards race, colour, gender, age, marital status, religion, national origin or any other legally protected status. We ensure that every employee is treated equally and fairly in all aspects of employment including recruitment, compensation, benefits, training, promotion, transfer and termination. We believe a diverse workforce and an inclusive workplace can foster greater employee motivation and performance which ultimately benefit our Group. MEC does not engage in any type of forced labour nor child labour. In line with our community development strategy by providing job opportunities to local citizens, we favour the employment of local citizens at every level of our Group.

During the Financial Year, no complaints related to harassment, discrimination and human rights were recorded at our offices and sites. We received a number of requests over working conditions and wages from our employees in Mongolia. Such requests had been investigated, reviewed and handled by our human resources department and operational department timely. We will continue to operate an open and fair system to deal with complaints and requests from our employees.

Employment

Our Group operates in Hong Kong, China and Mongolia, and there are considerable variations between us in different localities in terms of labour laws, codes of employment practice and cultures. As a responsible employer, we have complied with all the labour laws and regulations in each of the places we operate in. As at 31 March 2016, MEC employed a total of 552 full-time employees.

Employee Statistics as at 31 March 2016

	Hong Kong	China	Mongolia
Headcount*	29	159	364
By Employment Type			
Full-time	100%	100%	100%
Part-time	0%	0%	0%
By Gender			
Female	69%	26%	27%
Male	31%	74%	73%
By Nationality			
Chinese (HKSAR)	100%	1%	0%
Chinese (PRC)	0%	99%	5%
Mongolian	0%	0%	94%
Other	0%	0%	1%

* *Excluding contractors' employees*

Training and Development

MEC believes a comprehensive training program can enhance individual and organizational capability, as well as reduce the number of injury, illness, property damage and missed time from work. Our training program covers vocational trainings, safety trainings and management development trainings. Our mine site and coal washing plant employees had undergone the requisite occupational safety trainings as required under the relevant laws, such as proper use of occupational disease protective equipment, mine safety training and first aid course. Further training sessions for occupational health and safety regulations and operation procedures, such as heavy equipment operation and chemicals handling trainings, were conducted regularly for relevant staff according to their job duties. Our employees are often required to take theory tests and practical assessments after the training sessions in order to ensure everyone is up-to-date with the extensive range of skills and safety knowledge. During the Financial Year, 25 vocational and safety training sessions were conducted for our staff and contractors in Mongolia, while 17 vocational and safety training sessions were conducted for our staff in Xinjiang.

Health and Safety Policy

Safety is particularly critical to a mining company. We improve safety in every process of our operations continuously in order to create a safe production environment. All of our employees, contractors and sub-contractors must strictly comply with the government regulations and standards and follow our safety rules. MEC has adopted a Health and Safety Policy, which we are principally required to, among others, comply with applicable host-county legislations and regulations, and exceed those requirements where necessary, in order to maintain a healthy and safe working environment; and to identify, assess, and manage the health and safety risks of our activities in all planning and operational decisions based on appropriate and systematic risk assessment processes.

MoEnCo LLC ("**MoEnCo**"), our operating subsidiary in Mongolia, has formulated the Health and Safety Manual in line with the international best practice of occupational health and safety management. The Manual is intended for our employees to understand the policies and procedures of workplace safety based on the Mongolian laws so as to mitigate risk of injury. International best practice aligned with the Australian and New Zealand Standards is adopted when a relevant law does not exist. Lagging and leading indicators are adopted to measure the health and safety performance on a monthly basis. Daily and weekly workplace inspections are conducted by supervisory staff and safety officers to identify potential workplace hazards, assess safety risks, and immediate actions are taken to correct any activity deviated from the policies and procedures.

Health plan and occupational health program have been implemented to build awareness and knowledge of disease and hazard prevention. In compliance with the legal requirements, all of our site employees are required to undertake pre-employment medical examination for ensuring that they are fit to perform their jobs safely without placing co-workers at risks. Subsequent health checkup is conducted bi-annually or annually subject to the job position to ensure that no health issues and occupational diseases were contracted as a result of operational activities in the past twelve months. In addition, all of our employees are entitled to health insurance during employment.

We have a well-equipped medical service centre which is operated 12-hour a day by a medical team with doctors on a shift basis at the Khushuut Mine Site. Our medical team provides primary health care, medical emergency response, stabilization, treatment, and first aid training to MoEnCo's employees. Moreover, our site-based medical team also provides outpatient medical care and responds to emergency services within the local community. During the Financial Year, our medical team had handled 264 cases from the local community, of which 20 cases were transferred to the regional hospital for further treatment.

Although there is no medical service centre at the site of our coal washing plant, well stocked first aid kits and medicines are placed on-site. Annual health checkup was conducted in August 2015 for all the coal washing plant workers. Moreover, the coal washing plant has co-operated with Takeshiken local health bureau and Qinghe county hospital for provision of the emergency assistance at the site, if needed.

Safety Statistics

During the Financial Year, approximately 1.5 million man-hours were worked by our employees and contractors' employees at the Khushuut Coal Mine. Only 1 lost time case was recorded, compared to 3 in the previous financial year, resulting in a decreased lost time injury frequency rate of 0.67. The total recordable injury frequency rate also showed a slight decrease compared to the previous financial year. 6 first aid cases, 3 medical treatment cases and no fatality were identified during the reporting period.

Khushuut Coal Mine	For the Financial Year ended 31 March 2016	For the Financial Year ended 31 March 2015
Total man-hours worked*	1,495,663	1,704,095
No. of Fatalities	0	0
No. of Lost Time Injuries	1	3
Lost Time Injury Frequency Rate	0.67	1.76
Total Recordable Injury Frequency Rate	6.69	7.04

* *Including both our employees and contractors' employees*

During the Financial Year, approximately 354,000 man-hours were worked by our employees at the coal washing plant. 1 lost time case was recorded and achieved a lost time injury frequency rate of 3.23. The coal washing plant's total recordable injury frequency rate was 16.95, with 2 first aid cases, 3 medical treatment cases and zero fatality recorded during the reporting period.

Coal Washing Plant	**For the Financial Year ended 31 March 2016**
Total man-hours worked	354,000
No. of Fatalities	0
No. of Lost Time Injuries	1
Lost Time Injury Frequency Rate	2.82
Total Recordable Injury Frequency Rate	16.95

Green Office

Adoption of green culture at workplace can encourage our employees to sustain the green efforts in their daily lives in long term. Our Hong Kong Office participated in the Green Office Awards Labelling Scheme, which is jointly organized by the World Green Organisation (WGO) and Junior Chamber International (JCI) North District, aiming to ensure the achievement of environmental sustainability as set out in the United Nations Millennium Development Goals (UNMDG). In recognition of our efforts and commitment to reduce energy consumption and move further towards a low carbon office operation, MEC was awarded the WGO's "Green Office" Label and the UNMDG's "Better World Company" Label in June 2016 for the second consecutive year.

Environment Protection

Environmental Policy

We aim to minimize environmental harm at every stage of our mining operations. The Company has adopted an environmental policy focusing primarily on, among others, complying with the host-country legislations and regulations; establishing management systems and programs relevant to our environmental risks to prevent, reduce or mitigate impacts at all stages of our operations and regularly assessing our performance through evaluating our business processes and practices and monitoring the surrounding environment in which we operate.

Environmental Management Team

MoEnCo formed an environmental management team to oversee the environmental performance of the Company under the supervision of the mine director and the health, safety and environmental manager. The team is responsible for the implementation and monitoring of the Company's environmental management plans and programs. The team identifies and addresses possible measures to reduce the adverse impacts of our operations on the environment. MoEnCo's legal department works closely with the team to ensure compliance with environmental legislations, including but not limited to, the Minerals Law of Mongolia, the Law of Mongolia on Environmental Protection and the Law of Mongolia on Environmental Impact Assessments. Legal department is also responsible for ensuring timely execution and submission of environmental plans and reports to related authorities, and acquisition of the requisite licences and permissions.

Environmental Management Plan

MoEnCo's annual environmental management plan had been approved by the Ministry of Environment, Green Development and Tourism of Mongolia. In order to minimize the environmental footprint of our operations, individual management plans are devised and implemented in conformity with all the relevant Mongolian standards and regulations. Our individual management plans include, but not limited to, mitigation action plan, rehabilitation plan, biodiversity conservation plan, relocation and compensation plan, cultural heritage action plan, chemical risk management plan, waste management plan and environmental monitoring plan.

Our team regularly monitors and measures our activities to ensure they are acceptable according to national standards. Water monitoring is carried out every week and water samples are sent to the certified external laboratory for analysis on a monthly basis. Dust monitoring is carried out every two weeks at over 20 locations within our mine site and an annual comprehensive air quality assessment is conducted every year by a certified external professional. Soil analysis is conducted quarterly at over 20 locations within our mine site. Soil samples are taken and sent to the Laboratory of Soil Science of the Institute of Geography for analysis. Furthermore, we have invariably included in the provisions of our contracts requiring our contractors to conform to the standards of excellence on environmental care and comply with any environment related laws and regulations.

Sound waste management planning is an important part of long-term sustainable development. On-site waste are properly treated and segregated into different waste streams before disposal. General solid waste is buried or burnt at the specific rubbish dump area while general liquid waste is delivered to the sewage treatment plant in Khovd Province. Clinical waste is delivered to the licensed clinical waste collector for high temperature incineration while hazardous liquid waste is delivered to the chemical waste treatment centre for special treatment. During the Financial Year, a total of 3,025 tonnes of general liquid waste was collected from the mine site and delivered to the sewage treatment plant.

Land rehabilitation is an essential component of mining activities. During the Financial Year, a total of 477 trees, with different species such as elm, pine and shrubs, were planted around the coal washing plant. After the end of the Financial Year, we had planted over 6,400 trees and plants around the mine site and in local districts under our rehabilitation program, covering a total area of 16 hectares. A number of biological rehabilitation activities were also carried out along the land where explorations activities were conducted during the year. Seeds of perennial plants were sprinkled over the soil surface in order to protect the soil from erosion.

Extreme Weather

Locating at the height of 1,800 to 2,200 meters above sea level in the Altai Mountains, our Khushuut Coal Mine exposes to extreme weather conditions throughout the year. The temperature in Khushuut can reach 28°C in summer and down to minus 40°C in winter. Winter in Khushuut is long with months of heavy snowfall and gale force wind between October and April. The wind is always strong and gusty on-site with wind speed up to 20 m/s.

Extreme weather conditions can be a risk to our operations and employees' health and safety. Road conditions become very poor and slippery during snow season which can be a dangerous condition for trucks and vehicles. In order to ensure a safe and smooth traffic at the Khushuut Road, we had hired a professional contractor to provide continuous snow removal and road maintenance services, including clearing snow with gravel and coarse salt, cleaning drainage ditch on the roadside and blocked culverts, repairing frost boils by filling gravel to the depressed road, and reinforcing the retaining walls along the roads.

Due to the inherent quality of our coal, strong wind rapidly transports coal ashes and creates dust pollution on-site. We were charged air pollution fee by the Mongolian authority for our mining operations in 2014 and before. To deal with this problem, we had set up a dust suppression wall around the dry coal processing plant to control the wind flow around the coal yard and reduce the amount of airborne dust during coal processing. In November 2015, we installed a new dedusting system at the coal washing plant in order to reduce the environmental impacts of our operations and help protect the health of our workforce. The dust capture rate of the dedusting system reaches 95% and the dust concentrations can be reduced to below 50 mg/Nm^3, which are in compliance with the stringent emission control requirements and the safety and hygiene standards of the relevant laws.

Community Involvement

As a good and responsible corporate citizen, MEC continues to emphasize on community developments and partnerships by giving back to the local people in Mongolia. We aim to make contribution to local communities and generate economic values by creating jobs, procuring local goods, supporting social developments, and paying taxes and royalties. We have well-established networks of contacts within local communities and government authorities. We regularly meet and engage with the communities around our operations and local government to listen and respond to the concerns they may have about our operations.

MoEnCo came into the Co-operation Agreement with the Khovd Provincial government in 2014 after numerous meetings and negotiations. The Co-operation Agreement aims at increasing job opportunities for local citizens and supporting the small-size companies in Khovd Province. MoEnCo targets to recruit no less than 70% of the total workforce from Khovd Province which our mine operates. In order to support and strengthen the development of the local small and medium sized businesses, local companies in Khovd Province meeting our procurement requirements are given preference to be our suppliers of daily food and products; our leaser of service buses and light vehicles; and our security service providers.

According to the Co-operation Agreement, MoEnCo has the obligation to support the local economic and social developments. We donated domestic coal to the Khovd government and local community for their daily use. Sales discount of domestic coal were also provided to four districts of Khovd Province under the Co-operation Agreement. We allocated funds to the Khovd Khushuut Development Fund proportional to our coal export amount during the Financial Year.

During the Financial Year, MoEnCo had contributed approximately MNT282,000,000 (approximately HK$1,099,000) to the Khovd Khushuut Development Fund and donated lump coal for the Khovd governor and local community in Khushuut. We also spent around MNT30,000,000 (approximately HK$117,000) per month to provide electricity and water free of charge to the households of the Khushuut Village. Responding to the local community's request, we had allocated resources for maintenance of the local kindergarten in Khushuut and sponsorship of the local events. In order to help the poor and needy families of the local community in Qinghe county of Xinjiang, we offer them job opportunities to work in the coal washing plant.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of maintaining a high standard of corporate governance practices 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 Rules governing the Listing of Securities on the Stock Exchange (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.

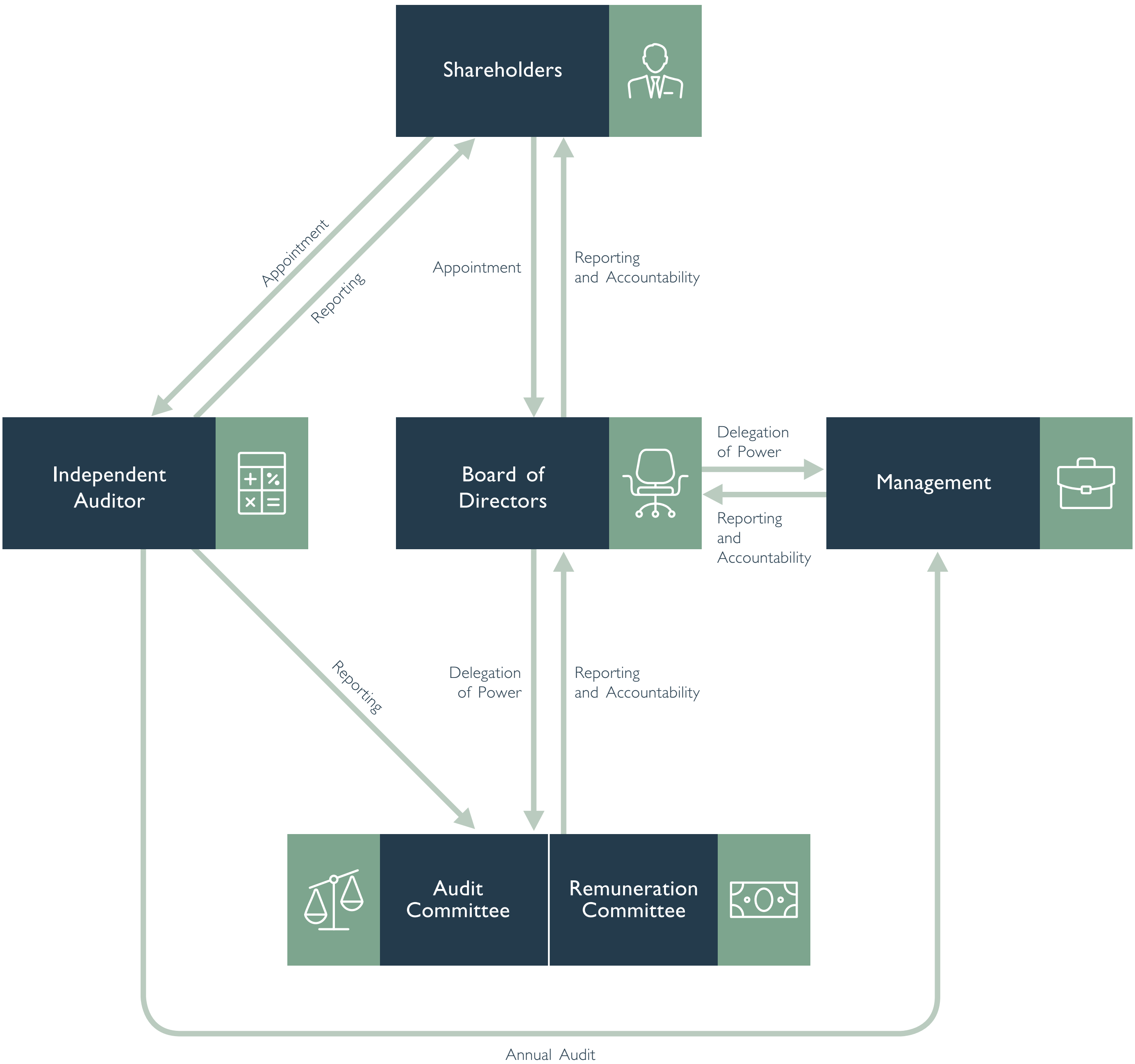
ii. Code provisions A.5.1 to A.5.4 of the CG Code require a nomination committee to be set up, chaired by the chairman of the board or an independent non-executive director to review the structure, size and composition of the board at least annually to complement the issuer's corporate strategy.

   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 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.

   Due to another business engagement, the Chairman was unable to attend the 2015 AGM. The Managing Director of the Company 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.

CORPORATE GOVERNANCE STRUCTURE



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.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Good corporate governance and enterprise-wide risk management are essential for every business. The Company is convinced that corporate governance and Directors and Officers Liability Insurance (the "**D&O Insurance**") complement each other. The Company has arranged appropriate D&O Insurance for the Directors and officers of the Group for indemnifying their liabilities arising from corporate activities. The D&O Insurance coverage is reviewed on an annual basis.

BOARD OF DIRECTORS

Board Composition

The Board currently comprises six members, including two executive Directors, one non-executive Director and three independent non-executive Directors, overseeing the overall business operation of the Company. Biographical details of the Directors are set out on pages 38 to 39.

Our Board possesses a balance of skills and experience appropriate for the running of the Company's business. They come from different streams of professions with diversified expertise including management, finance, legal and accounting.

The Board members during the Financial Year and up to the date of this Report are as follows:

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

Non-executive Director
Mr. To Hin Tsun, Gerald

Independent Non-executive Directors
Mr. Peter Pun *OBE, JP*
Mr. Tsui Hing Chuen, William *JP*
Mr. Lau Wai Piu

The Board will consider the following attributes or qualifications in evaluating membership in the Board:

– management and leadership experience;

– skills and diverse background;

– integrity and professionalism; and

– independency.

The Company has adopted an internal policy (the "**Policy**") setting out an approach to achieve diversity on the Board in 2012. The Policy provides that the Company should ensure its Board members possess a balance of skills, experience and diversity of perspectives that are appropriate for the running of the Company's business.

The Board will review its composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the business and development of the Company. The shareholders may propose a candidate for election as a director and the procedures have been published on the website of the Company.

During the Financial Year, the Board at all times met the requirements under Rule 3.10 of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

All the Independent Non-executive Directors are financially independent from the Company and any of its subsidiaries. The Company has received written annual confirmation of independence from each Independent Non-executive Director pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors to be independent.

Responsibilities and Functions of the Board

The Board is responsible for formulating strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving the financial statements. The Board is also responsible for developing and reviewing the Company's policies on corporate governance and making recommendations. The Board as a whole and the management of the Company shall ensure good corporate governance practices and procedures are followed.

The Directors, collectively and individually, are aware of their responsibilities to the shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances as and when necessary, the Directors can seek independent professional advice at the Company's expense for ensuring that the Board procedures and all applicable rules and regulations are followed.

The Board may delegate the management powers to the management of the Company. However, the delegation of power does not absolve the Directors from their responsibilities of exercising requisite skill, care and diligence in overseeing the performance of the Company. The Board can meet the management of the Company from time to time to discuss the operating issues of the Group. The Company has also issued formal appointment letters to all the Directors setting out the key terms and conditions of their respective appointments.

In order to enable the Directors to discharge their duties effectively, each Director has separate and independent access to members of the management to make enquiries or obtain necessary information. They may also seek advices and services from external experts and consultants at the Company's expense for the purpose of facilitating them to make an informed decision.

All the non-executive Directors, including the independent non-executive Directors, are not involved in daily management. The non-executive Directors assist the Board in determining overall policies of the Company and contributing to the decision making of the Board. They also give independent views on the deliberations of the Board and ensure high standards of corporate governance and financial probity.

The Board is responsible for performing the following corporate governance duties:

i. to develop and review the Company's policies on corporate governance and make recommendations;

ii. to review and monitor the training and continuous professional development of the Directors and senior management;

iii. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

iv. to develop, review and monitor the code of conduct of employees and the Directors; and

v. to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the Financial Year, the Board:

i. reviewed the performance of the Group and formulated business strategies of the Group;

ii. reviewed and approved the annual and interim results of the Group;

iii. reviewed the internal control of the Group;

iv. reviewed the corporate governance procedures;

v. reviewed and approved the general mandates to issue shares of the Company;

vi. reviewed and approved the price-sensitive transactions of the Company;

vii. reviewed and approved the connected transactions of the Company; and

viii. reviewed and approved the auditor's remuneration and recommended the re-appointment of Messrs. Deloitte Touche Tohmatsu as the independent auditor of the Group respectively.

To the best knowledge of the Company, there is no financial, business and family relationship among our Directors. All of them are free to exercise their independent judgments.

The Directors are aware of their commitments to the Company for contributing sufficient time and attentions to the management of the Company.

Directors' Training and Continuous Professional Development

All the Directors should participate in continuous professional development to develop and refresh their knowledge and skills in their roles as directors pursuant to Code Provision A.6.5 of the CG Code. Attendance to any professional courses recognised by registered professional bodies such as the Law Society of Hong Kong, the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries etc., are recognised by the Company for this purpose. The Directors will also be provided with materials from time to time to keep abreast of the latest legal and regulatory changes to enable them to effectively discharge their duties.

During the Financial Year, all the Directors had participated in appropriate continuous professional development activities by ways of attending training and/or reading material relevant to the Company's businesses or to the Directors' duties and responsibilities.

According to the records maintained by the Company, the Directors received the following trainings for the Financial Year:

Name of Director	Types of Training
Mr. Lo Lin Shing, Simon *(Chairman)*	B
Ms. Yvette Ong *(Managing Director)*	B
Mr. To Hin Tsun, Gerald	A, B
Mr. Peter Pun *OBE, JP*	B
Mr. Tsui Hing Chuen, William *JP*	A, B
Mr. Lau Wai Piu	B

Notes:

A: attending seminars and/or conferences and/or forums or giving talks at seminars

B: reading materials relating to the Group, general business or director's duties and responsibilities, etc.

CHAIRMAN AND MANAGING DIRECTOR

During the Financial Year, the Chairman of the Board and the Managing Director were Mr. Lo Lin Shing, Simon and Ms. Yvette Ong respectively.

The Chairman's responsibilities are to provide leadership to the Board and formulate the Group's business strategies. The Chairman is also responsible for ensuring that the Board works effectively, in particular, all the Directors receive reliable, adequate and complete information in a timely manner. The Chairman may communicate with the Directors directly or through the assistance of the Company Secretary to discuss or clarify any issues concerning the Group from time to time, and to provide any supporting information and documents to them.

The Chairman assumes the primary responsibility for ensuring that good corporate governance practices and procedures are established.

The Managing Director is responsible for the conduct of day-to-day operation of the Company and accountable to the Board for all aspects of the corporate performance. She recommends policies to the Board for consideration and approval, and keeps the Board informed of any material developments of the Company's business. The Managing Director may delegate her duties to any other management members or responsible officers of the Company but she assumes the principal responsibility.

NON-EXECUTIVE DIRECTORS

None of the existing Non-executive Directors, including the Independent Non-executive Directors, is appointed for a specific term.

COMPANY SECRETARY

The Company Secretary is an employee of the Company and has served the Company as the Company Secretary since July 2004. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Under the Company's Bye-laws, the appointment of the Company Secretary shall be determined by the Board. The Company Secretary shall attend all meetings of the shareholders and of the Directors and shall keep correct minutes of such meetings and enter the same in the proper books provided for the purpose. During the Financial Year, the Company Secretary had taken no less than fifteen hours of relevant professional trainings under Rule 3.29 of the Listing Rules.

BOARD COMMITTEES

The Board has established the Remuneration Committee and the Audit Committee, with specific terms of reference relating to their authorities and duties, which strengthen the Board's functions and enhance its expertise.

Each Committee makes decisions on matters within its terms of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each Committee will be reviewed from time to time.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three independent non-executive Directors, namely Mr. Lau Wai Piu, Mr. Peter Pun *OBE, JP* and Mr. Tsui Hing Chuen, William *JP*, of whom Mr. Lau Wai Piu is the chairman. The Company has also appointed an external consultant to review and compare the level of compensation paid to the Directors with the prevailing market rates and give recommendation, and to review and study the remuneration level of the senior management of the Company and give recommendation.

The main responsibilities of the Remuneration Committee include, but are not limited to, making recommendations to the Board on the Company's policy and structure for remuneration of all the Directors and senior management, reviewing and approving the special remuneration packages of all the executive Directors with reference to corporate goals and objectives resolved by the Board from time to time, and determining, with delegated responsibility, the remuneration packages of the individual executive Directors.

The terms of reference of the Remuneration Committee which was revised and adopted in March 2012 are in line with the requirements of the Listing Rules. Details of the terms of reference of the Remuneration Committee can be viewed on both the websites of the Company and the Stock Exchange.

During the Financial year, the Remuneration Committee:

(i) reviewed and made recommendations on the remuneration policies; and

(ii) reviewed the remuneration packages of the Directors and the senior management.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely Mr. Lau Wai Piu, Mr. Peter Pun *OBE, JP* and Mr. Tsui Hing Chuen, William *JP*, of whom Mr. Lau Wai Piu is the chairman.

The main responsibilities of the Audit Committee include, but are not limited to, reviewing the Company's current financial standing, considering the nature and scope of audit reports, and ensuring internal control and risk management systems operate in accordance with applicable standards and conventions.

The terms of reference of the Audit Committee which was revised and adopted in March 2012 are in line with the requirements of the Listing Rules. Details of the terms of reference of the Audit Committee can be viewed on both the websites of the Company and the Stock Exchange.

During the Financial Year, the Audit Committee:

(i) reviewed the financial statements for the year ended 31 March 2015 and for the six months ended 30 September 2015;

(ii) reviewed the effectiveness of the internal control and risk management systems;

(iii) reviewed the independent auditor's report; and

(iv) reviewed the Company's continuing connected transactions for the year ended 31 March 2015 pursuant to the Listing Rules.

During the Financial Year, the Chief Financial Officer attended both of the Audit Committee meetings to present the financial results of the Group to the Committee members. He also oversaw the financial reporting procedures and ensured the financial reporting and other accounting-related issues were complied with the statutory requirements and applicable accounting standards.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the Financial Year is set out below:

	Number of Meetings Attended/Held			
Name of Director	**Board**	**Remuneration Committee**	**Audit Committee**	**Annual General Meeting**
Mr. Lo Lin Shing, Simon *(Chairman)*	3/4	N/A	N/A	0/1
Ms. Yvette Ong *(Managing Director)*	3/4	N/A	N/A	1/1
Mr. To Hin Tsun, Gerald	4/4	N/A	N/A	0/1
Mr. Peter Pun *OBE, JP*	3/4	1/1	2/2	1/1
Mr. Tsui Hing Chuen, William *JP*	4/4	1/1	2/2	0/1
Mr. Lau Wai Piu	4/4	1/1	2/2	1/1

For every Board and Board Committee meeting, each Director is required to declare whether he/she has any conflict of interests in the matters to be considered. If a substantial shareholder or a Director has a conflict of interests which is considered by the Board as material, the matters should be dealt with by a physical Board meeting rather than a written resolution.

Apart from the regular Board meetings, the Chairman had held a meeting with the non-executive Directors, including the independent non-executive Directors without the presence of the executive Directors.

INDEPENDENT AUDITOR

Messrs. Deloitte Touche Tohmatsu ("**Deloitte**") was re-appointed as independent auditor of the Group (the "**Independent Auditor**") at the 2015 AGM. It is the Independent Auditor's responsibilities to form an independent opinion, based on its audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purposes. Deloitte does not assume responsibility towards or accept liability to any other person for the contents of the Independent Auditor's Report.

During the year under review, the professional fee paid/payable to the Independent Auditor is set out as follows:

Services	**Fee Paid/Payable** HK$'000
Audit services	3,400
Non-audit services	956
	4,356

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards.

The statement of the Independent Auditor of the Company regarding responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 49 to 50.

ACCOUNTABILITY AND DISCLOSURE

The Group has provided its major operations and updates and financial information on a monthly basis to enable the Directors to assess its performance in regular intervals.

The Board understands its responsibility under the Listing Rules and other applicable regulations to make a prompt assessment and disclose updated developments and inside information regarding the Group to the shareholders and investing public in a timely manner. During the Financial Year, the Company had issued five inside information announcements for updating the business progress and developments of the Group.

Apart from these, the Company's website (www.mongolia-energy.com) also provides comprehensive and accessible news and information of the Company. Contact details of the Company are posted on the website in order to enable the shareholders and other stakeholders to make enquiries in respect of the Group.

The latest and previous annual reports, interim reports, announcements, business operations, corporate governance practices and other information of the Company are available on the Company's website. To ensure effective and timely dissemination of information at all times, the Company updates the website contents on a regular basis to keep the shareholders and public informed of the business developments of the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Group's system of internal control so as to maintain sound and effective risk management and internal control to safeguard the shareholders' investment and the assets of the Group.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. This process includes continuous updating of the risk management and internal control systems of the Group in response to the changing business environment and regulatory requirements.

The Board also conducts reviews of the risk management and internal control of the Group to ensure that the policies and procedures in place are adequate. The Board assesses the effectiveness of the Group's risk management and internal control systems which covers all material controls, including financial, operational and compliance controls and risk management functions.

During the Financial Year, an independent professional consulting firm was engaged to conduct the risk management and internal control reviews of the Group and reported directly to the Audit Committee. The outcomes of the reviews were submitted to the Audit Committee and no major weakness was identified. The independent professional consulting firm also provided recommendations based on its findings.

To enhance the effectiveness of the risk management and internal control, the Director of Legal and Compliance will assist in risk management and internal control review process to ensure the compliance aspects of the Group are met. The Company Secretary will ensure the Board and the Board Committees are provided with timely information and sufficient resources to enable them to efficaciously discharge their duties.

COMMUNICATION WITH SHAREHOLDERS

The Group is committed to enhancing the communication with the shareholders and investors. Updated information about the announcements of the Group and the Company is posted on our website (www.mongolia-energy.com) in a timely manner. The shareholders can communicate with the Company or the Board through the contact information provided on the website and in the general meetings of the Company.

The Company has complied with the Listing Rules regarding the requirements about voting by poll and keeping the shareholders informed of the procedures for voting by poll through notices of general meetings in circulars of the Company.

During the Financial Year, the Company held one general meeting which was the AGM. The Directors and the Independent Auditor of the Company had attended the 2015 AGM to answer the shareholders' enquiries. In addition, separate resolutions for each separate issue had been proposed at the general meeting for voting by the shareholders.

The notice of the AGM is distributed to all shareholders at least twenty clear business days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company has only one class of shares. All shares have the same voting rights and entitlement to any dividend declared. The rights of our shareholders are set out in, among others, the Bye-laws of the Company and the Companies Act.

Convening a General Meeting

The shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to request a general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months from the date of the deposit of such requisition.

If the Board does not within twenty-one days from the date of deposit of the requisition proceed duly to convene a general meeting, the shareholders concerned may convene the general meeting in the same manner in accordance with the provisions of Section 74 of the Bermuda Companies Act.

The written requisition must state the objects of the meeting, and must be signed by the shareholders concerned. The requisition will be verified with the Company's share registrars and upon their confirmation that the requisition is proper and in order, the Company Secretary will ask the Board to (i) include the resolution in the agenda for the AGM; or (ii) convene a special general meeting by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders.

On the contrary, if the requisition has been verified as not being in order, the shareholders concerned will be advised of this outcome and accordingly, (i) the proposed resolution will not be included in the agenda for the AGM; or (ii) the general meeting will not be convened as requested.

The notice period to be given to the registered shareholders for consideration of the proposal raised by the shareholders concerned at a general meeting varies according to the nature of the proposal. Pursuant to Bye-law 59(1) of the Company's Bye-laws, an AGM shall be called by a notice of not less than twenty clear business days and all other general meeting at which the passing of a special resolution is to be considered shall be called by not less than ten clear business days.

Putting Forward Proposals at General Meetings

The shareholders representing not less than one-twentieth of the total voting rights of the Company at the date of the deposit of the requisition or not less than one hundred shareholders are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company.

The requisition must state the proposal together with a statement with respect to the matter referred to in the proposal and duly signed by the shareholders concerned. The written requisition must be deposited at the registered office of the Company for the attention of the Company Secretary, (i) in the case of a requisition requiring notice of a resolution not less than six weeks before the meeting, and (ii) in the case of any other requisition, not less than one week before the meeting.

The requisition will be verified with the Company's share registrars and upon their confirmation that the requisition is proper and in order, the Company Secretary will ask the Board to (i) include the resolution in the agenda for the AGM; or (ii) convene a special general meeting by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders.

On the contrary, if the requisition has been verified as not being in order, the Shareholders concerned will be advised of this outcome and accordingly, (i) the proposed resolution will not be included in the agenda for the AGM; or (ii) the general meeting will not be convened as requested.

Proposing for Election as a Director

If a shareholder wishes to propose a person other than a Director of the Company for election as a Director at any general meeting, he/she can deposit a written notice to that effect at the principal place of business of the Company for the attention of the Company Secretary.

In order for the Company to inform its shareholders of that proposal, the written notice must state the full name of the person proposed for election as a Director, include the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and that person indicating his/her willingness to be elected. The period for lodgment of such a written notice will commence no earlier than the day after the despatch of the notice and end no later than seven days prior to the date of any general meeting.

Putting Forward Enquiries to the Board

Shareholders may send written enquiries together with their detailed contact information, by post to the Company's principal place of business in Hong Kong or by e-mail to enquiry-hk@mongolia-energy.com for the attention of the Company Secretary.

CONSTITUTIONAL DOCUMENTS

During the Financial Year, the Company has not made any changes to its Bye-laws. An up-to-date version of the Company's Bye-laws is available on the Company's website as well as the Stock Exchange's website.

MR. LO LIN SHING, SIMON
Chairman and Executive Director

Mr. Lo, aged 60, an entrepreneur, is the Chairman of the Company. He has been an executive Director since August 1999. Mr. Lo possesses over 30 years of experience in the financial, securities and futures industries, including many trans-border transactions. He has been a member of Chicago Mercantile Exchange and International Monetary Market (Division of Chicago Mercantile) since 1986. Mr. Lo is also the chairman of Vision Values Holdings Limited, the deputy chairman and executive director of International Entertainment Corporation, both of which are listed on the Stock Exchange. He identifies business opportunities for MEC, including the acquisition of the coal mine in Western Mongolia, and provides business and strategic direction for MEC.

MS. YVETTE ONG
Managing Director and Executive Director

Ms. Ong, aged 51, has been an executive Director since September 1999 and was appointed as the Managing Director on 1 June 2012. She has over 25 years of managerial experience in the Asia-Pacific region. Before that Ms. Ong was a managing director of AT&T EasyLink Services Asia Pacific Ltd. Ms. Ong holds an MBA degree in Management Information Systems and Marketing and a Bachelor degree in Finance and Management from the University of San Francisco.

MR. TO HIN TSUN, GERALD
Non-executive Director

Mr. To, aged 67, was appointed as an independent non-executive Director in August 1999 and was re-designated as a non-executive Director in October 2000. Mr. To has been a practising solicitor in Hong Kong since 1975. He is also qualified as a solicitor in the United Kingdom, as well as an advocate and solicitor in Singapore. Mr. To is also an executive director of International Entertainment Corporation, and a non-executive director of NWS Holdings Limited, both of which are listed on the Stock Exchange.

MR. PETER PUN *OBE, JP*

Independent Non-executive Director

Mr. Pun, aged 85, has been an independent non-executive Director since October 1997. He is the chairman and chief executive of the PYPUN group. Mr. Pun has over 50 years of international experience in engineering and construction, town and urban planning, and infrastructure and property development. He is a graduate of St. John's University and Tongji University in Shanghai and a postgraduate of Imperial College, London. He has been an Authorized Person and Registered Structural Engineer since 1964 and a Registered Geotechnical Engineer since 2005 under the Hong Kong Buildings Ordinance. He is a fellow of both the Institution of Civil Engineers in the United Kingdom and the Hong Kong Institution of Engineers.

MR. TSUI HING CHUEN, WILLIAM *JP*

Independent Non-executive Director

Mr. Tsui, aged 65, was appointed as an independent non-executive Director in September 2006. Mr. Tsui is the founding partner of Messrs. Lo, Wong & Tsui, Solicitors & Notaries, which was established in 1980. He has been a solicitor of the High Court of Hong Kong since 1977, a solicitor of the Supreme Court of England & Wales since 1980, and a barrister and solicitor of the Supreme Court of Victoria, Australia since 1983. He has also been an advocate and solicitor in Singapore since 1985 and a notary public appointed by the Archbishop of Canterbury, England since 1988. Mr. Tsui was appointed as a Justice of the Peace by the Government of Hong Kong in 1997. He was admitted to the Roll of Honour of the Law Society of Hong Kong in 2013. He is also an independent non-executive director of International Entertainment Corporation, Haitong International Securities Group Limited and Vision Values Holdings Limited, all of which are listed on the Stock Exchange.

MR. LAU WAI PIU

Independent Non-executive Director

Mr. Lau, aged 52, joined the Company as an independent non-executive Director since September 2004. He has over 20 years of extensive experience in accounting and financial management. Mr. Lau is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Lau is also an independent non-executive director of International Entertainment Corporation, Haitong International Securities Group Limited and Vision Values Holdings Limited, all of which are listed on the Stock Exchange.

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements of the Company and its subsidiaries (together the "**Group**") for the Financial Year.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding and the activities of its principal subsidiaries are coal mining and related operations. The activities of the principal subsidiaries are set out in Note 40 to the consolidated financial statements.

Analyses of the principal activities and geographical locations of the operations of the Group for the year ended 31 March 2016 are set out in Note 8 to the consolidated financial statements.

BUSINESS REVIEW

Reviews of the business of the Group during the Financial Year and discussions of the Group's future business development are set out in the Management Discussion and Analysis on pages 7 to 12.

POSSIBLE RISKS AND UNCERTAINTIES

Descriptions of the possible risks and uncertainties that the Group is facing are provided in the Management Discussion and Analysis on pages 12 to 16 and in Notes 5 and 6 to the consolidated financial statements. The financial risk management objectives and policies of the Group can be found in Note 7(b) to the consolidated financial statement.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Discussions of the environmental policies and performance during the Financial Year are provided in the Management Discussion and Analysis on page 10 and Sustainability Report on pages 23 to 25.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

Discussions of the compliance with relevant laws and regulations which have a significant impact on the Group are set out in the Management Discussion and Analysis on page 10.

KEY RELATIONSHIPS WITH STAKEHOLDERS

In relation to the Company's key relationships with its stakeholders, discussions of the Company's policies on human resources management, community involvement and contribution in relation to environmental concerns and social responsibilities are provided in the Management Discussion and Analysis on page 10 and Sustainability Report on pages 19 to 25.

RESULTS

The results of the Group for the year ended 31 March 2016 are set out in the Consolidated Statement of Profit or Loss on page 51.

No interim dividend was declared (2015: Nil) and the Directors do not recommend the payment of a final dividend for the year ended 31 March 2016 (2015: Nil).

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and the share options of the Company during the Financial Year are set out in Notes 32 and 33 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results for the year and of the assets and liabilities of the Group as at 31 March 2016 and for the last four financial years are set out on page 119.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out on page 55 and in Note 39 to the consolidated financial statements respectively.

DONATIONS

For the year ended 31 March 2016, the Group made charitable and other donations in a total amount of HK$1,142,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Financial Year are set out in Note 16 to the consolidated financial statements.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the principal subsidiaries and associated companies of the Group as at 31 March 2016 are set out in Notes 40 and 21 to the consolidated financial statements respectively.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the Financial Year attributable to the Group's major suppliers and customers are as follows:

Sales

The largest customer	97%
Five largest customers in aggregate	98%

Purchases

The largest purchaser	19%
Five largest purchasers in aggregate	26%

None of the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers.

DIRECTORS

During the Financial Year and up to the date of this Report, the board composition and biographical details of the Directors of the Group are set out on pages 29 to 30, and pages 38 to 39 respectively.

In accordance with Bye-law 87 of the Bye-laws of the Company, Mr. To Hin Tsun, Gerald and Mr. Peter Pun *OBE, JP* will retire. All the retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM.

The Directors, including the independent non-executive Directors, are subject to retirement by rotation and re-election at the AGM of the Company in accordance with the provisions of the Bye-laws of the Company.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 26 to 37.

DIRECTORS' INTERESTS

As at 31 March 2016, 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 pursuant to the Model Code were as follows:

(a) Long positions in the shares

Name of Directors	Capacity	Number of shares	Percentage of shareholding
Mr. Lo Lin Shing, Simon ("**Mr. Lo**")	Interest of a controlled corporation/ Beneficial owner/Interest of spouse	303,197,075 *(Note)*	16.969%
Ms. Yvette Ong	Beneficial owner	272,500	0.015%
Mr. To Hin Tsun, Gerald	Beneficial owner	1,350,000	0.076%
Mr. Tsui Hing Chuen, William *JP*	Beneficial owner	125,000	0.007%
Mr. Lau Wai Piu	Beneficial owner	50,300	0.003%

*Note: Among the 303,197,075 shares, 1,240,000 shares represent interest of Mr. Lo on an individual basis, while 301,519,575 shares represent interest of Golden Infinity Co., Ltd. ("**Golden Infinity**"). The balancing of 437,500 shares represents interest of Ms. Ku Ming Mei, Rouisa ("**Mrs. Lo**"). Accordingly, Mr. Lo is deemed to be interested in the shares in which Golden Infinity and Mrs. Lo are interested by virtue of the SFO.*

(b) Long positions in the underlying shares

Name of Directors	Capacity	Number of shares	Percentage of shareholding
Mr. Lo	Interest of a controlled corporation/ Personal	722,994,429 *(Note)*	40.464%
Ms. Yvette Ong	Personal	6,250,000	0.350%
Mr. To Hin Tsun, Gerald	Personal	3,250,000	0.182%
Mr. Peter Pun *OBE, JP*	Personal	3,250,000	0.182%
Mr. Tsui Hing Chuen, William *JP*	Personal	3,250,000	0.182%
Mr. Lau Wai Piu	Personal	3,250,000	0.182%

Note: Among the 722,994,429 shares, 700,744,429 shares represent interest of Golden Infinity. The balancing of 22,250,000 shares represents interest of Mr. Lo on an individual basis.

Save as disclosed above and the section headed "**SHARE OPTION SCHEMES**", as at 31 March 2016, none of the Directors, chief executives 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 31 March 2016, 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	Capacity in which such interests is held	Number and description of shares		Percentage of nominal value of issued share capital
Cheng Yu Tung Family (Holdings) Limited	Beneficial owner/Interest of controlled corporations	3,188,196,860	*(Note 1)*	178.435%
Cheng Yu Tung Family (Holdings II) Limited	Beneficial owner/Interest of controlled corporations	3,188,196,860	*(Note 1)*	178.435%
Chow Tai Fook (Holding) Limited	Interest of controlled corporations	3,188,196,860	*(Note 1)*	178.435%
Chow Tai Fook Capital Limited	Interest of controlled corporations	3,188,196,860	*(Note 1)*	178.435%
Chow Tai Fook Nominee Limited	Corporate	3,188,196,860	*(Notes 1 & 2)*	178.435%
Mrs. Lo	Beneficial owner/Interest of spouse	1,026,191,504	*(Note 3)*	57.433%
Golden Infinity	Corporate	1,002,264,004	*(Note 3)*	56.094%
Mr. Och Daniel Saul	Beneficial owner/Interest of controlled corporations	543,345,651	*(Note 4)*	30.410%
Och-Ziff Capital Management Group LLC	Interest of controlled corporations	543,345,651	*(Note 4)*	30.410%
OZ Management L.P.	Interest of controlled corporations	543,345,651	*(Note 4)*	30.410%
OZMD IR, LLC	Interest of a controlled corporation	361,814,130	*(Note 4)*	20.250%
Sculptor Finance (MD) Ireland Limited	Corporate	361,814,130	*(Note 4)*	20.250%
OZAS IR, LLC	Interest of a controlled corporation	178,030,618	*(Note 4)*	9.964%
Sculptor Finance (AS) Ireland Limited	Corporate	178,030,618	*(Note 4)*	9.964%
Dr. Cheng Kar Shun	Beneficial owner/Interest of spouse/Interest of a controlled corporation	98,667,500	*(Note 5)*	5.522%
Ms. Ip Mei Hing	Beneficial owner/Interest of spouse/Interest of a controlled corporation	98,667,500	*(Note 5)*	5.522%

Notes:

1. *Chow Tai Fook (Holdings) Limited holds 99.8% interest in Chow Tai Fook Nominee Limited. 78.58% interest of Chow Tai Fook (Holdings) Limited is held by Chow Tai Fook Capital Limited in which it is 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 (Holdings) Limited, and Chow Tai Fook Nominee Limited is deemed to be interested in 3,188,196,860 shares.*

2. *Among the 3,188,196,860 shares held by Chow Tai Fook Nominee Limited, 3,133,196,860 shares are underlying shares.*

3. Mrs. Lo is the spouse of Mr. Lo and accordingly, she was deemed to be interested in 1,026,191,504 shares under the SFO.

*4. OZAS IR, LLC ("**OZAS**") holds 100% interest in Sculptor Finance (AS) Ireland Limited and OZMD IR, LLC ("**OZMD**") holds 100% interest in Sculptor Finance (MD) Ireland Limited. OZAS and OZMD are 100% held by OZ Management L.P.. The entire interest of OZ Management L.P. is ultimately held by Och-Ziff Capital Management Group LLC, in which Mr. Daniel Saul Och is interested in 64.10% of its interest. By virtue of the SFO, each of Mr. Daniel Saul Och, Och-Ziff Capital Management Group LLC, and OZ Management L.P. is deemed to be interested in 543,345,651 shares.*

*5. Dr. Cheng Kar Shun is interested in the entire issued share capital of Dragon Noble Group Limited ("**Dragon**"). By virtue of the SFO, he is deemed to be interested in 78,892,500 shares held by Dragon and 19,775,000 shares are owned by Ms. Ip Mei Hing (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 31 March 2016.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Financial Year and up to the date of this Report, to the best knowledge of the Directors, none of the Directors nor their respective associates was considered to have any interests in the businesses which compete or were likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as Directors to represent the interests of the Company and/or the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Apart from those disclosed in the section headed "**CONNECTED TRANSACTIONS**" and Note 36 to the consolidated financial statement, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, either directly or indirectly, subsisted at the end of the Financial Year or at any time during the Financial Year.

DIRECTORS' SERVICE CONTRACTS

During the Financial Year, none of the Directors proposed for re-election at the forthcoming AGM has entered into any service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the Financial Year.

SHARE OPTION SCHEMES

Under the share option schemes adopted by the Company on 28 August 2002 (the "**2002 Share Option Scheme**") and 30 August 2012 (the "**2012 Share Option Scheme**") respectively, 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.

The 2002 Share Option Scheme ended on 27 August 2012. The share options under the 2002 Share Option Scheme are exercisable at any time for a period to be determined by the Directors, which shall not be more than ten years from the date of grant.

The following is a summary of the terms of the 2012 Share Option Scheme:

1. Purpose

The purpose of the 2012 Share Option Scheme is to provide incentives or rewards for the contribution of the participants to the Group and to enable the Group to recruit or retain high-calibre employees and attract human resources that are valuable to the Group.

2. Participants

The participants of the 2012 Share Option Scheme include any Directors, employees, consultants, agents or advisors of the Group or any entities in which the Group hold an interest.

3. Number of shares available for issue

Under the 2012 Share Option Scheme, the total number of shares which may be issued under options to be granted is 178,675,849 which represent approximately 10% of the issued share capital of the Company as at 31 March 2016.

4. Maximum entitlement of each participant

Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any twelve month period must not exceed 1% of the shares in issue.

5. Option period

An option may be exercised in accordance with the terms of the 2012 Share Option Scheme at any time during the period to be notified by the Directors to the grantee, but in any event such period of time must not be more than ten years from the date of grant.

6. Vesting period

The Directors may, if consider appropriate, determine the minimum period for which an option must be held before it can be exercised.

7. Amount payable on acceptance of option

Upon acceptance of the offer for an option, the grantee shall pay HK$1.00 as consideration for the grant.

8. Exercise price

The subscription price for a share in respect of any option granted shall be a price determined by the Directors at their absolute discretion but shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for five trading days immediately preceding the offer date; and (iii) the nominal value of a share.

9. Remaining life of the Scheme

The 2012 Share Option Scheme is valid and effective for a term of ten years commencing from 30 August 2012.

Details of the movements in outstanding share options, which have been granted under the 2002 Share Option Scheme and 2012 Share Option Scheme, during the Financial Year were as follows:

(a) Directors

					Number of shares subject to options				
Name	Date of Grant	Exercise Price HK$	Exercise period	Vesting Period	As at 1 April 2015	Granted during the year	Lapsed during the year	Exercised during the year	As at 31 March 2016
Mr. Lo	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	1,500,000	–	(1,500,000)	–	–
	29-02-2012	3.240	29-02-2012 to 28-02-2017	N/A	1,500,000	–	–	–	1,500,000
	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
Ms. Yvette Ong	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	125,000	–	(125,000)	–	–
	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
Mr. To Hin Tsun, Gerald	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	125,000	–	(125,000)	–	–
	29-02-2012	3.240	29-02-2012 to 28-02-2017	N/A	125,000	–	–	–	125,000
	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
Mr. Peter Pun *OBE, JP*	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	125,000	–	(125,000)	–	–
	29-02-2012	3.240	29-02-2012 to 28-02-2017	N/A	125,000	–	–	–	125,000
	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
Mr. Tsui Hing Chuen, William *JP*	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	125,000	–	(125,000)	–	–
	29-02-2012	3.240	29-02-2012 to 28-02-2017	N/A	125,000	–	–	–	125,000
	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

Name	Date of Grant	Exercise Price HK$	Exercise period	Vesting Period	Number of shares subject to options As at 1 April 2015	Granted during the year	Lapsed during the year	Exercised during the year	As at 31 March 2016
Mr. Lau Wai Piu	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	125,000	–	(125,000)	–	–
	29-02-2012	3.240	29-02-2012 to 28-02-2017	N/A	125,000	–	–	–	125,000
	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
Sub-total					9,625,000	34,000,000	(2,125,000)	–	41,500,000

(b) Employees in aggregate

Name or category of participants	Date of Grant	Exercise Price HK$	Exercise period	Vesting Period	As at 1 April 2015	Granted during the year	Lapsed during the year	Exercised during the year	As at 31 March 2016
Employees in aggregate (including a director of certain subsidiaries)	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	575,000	–	(575,000)	–	–
	29-02-2012	3.240	29-02-2012 to 28-02-2017	N/A	5,625,000	–	–	–	5,625,000
	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 08-09-2020	N/A	–	50,500,000	–	–	50,500,000
Sub-total					12,075,000	50,500,000	(575,000)	–	62,000,000
TOTAL					**21,700,000**	**84,500,000**	**(2,700,000)**	**–**	**103,500,000**

CONNECTED TRANSACTIONS

During the Financial Year, the Group had the following continuing connected transactions and details of which were disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing Connected Transaction

Tenancy Agreement

On 27 April 2015, Mongolia Energy Corporation (HK) Limited, a wholly-owned subsidiary of the Company, entered into a new office tenancy agreement as tenant with Cambo Management Limited as the Landlord for a term of two years at a monthly rent of HK$308,922 from 8 May 2015 to 7 May 2017 (the "**Tenancy Agreement**").

The particulars of the Tenancy Agreement were disclosed in the announcement of the Company dated 27 April 2015. The Landlord is an investment holding company wholly and beneficially owned by Mr. Lo, who is a connected person of the Company under the Listing Rules.

The transaction contemplated under the Tenancy Agreement constituted continuing connected transaction of the Company under Chapter 14A of the Listing Rules which was subject to the reporting, announcement and annual review requirements but was exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Confirmation of Independent Non-executive Directors

Pursuant to Rule 14A.55 of the Listing Rules, the Company's independent non-executive Directors had reviewed the Tenancy Agreement transactions and confirmed that the Tenancy Agreement transactions had been entered into:

(i) in the ordinary and usual course of the Group's business;

(ii) on normal commercial terms or better; and

(iii) in accordance with the terms of the respective agreements governing the Tenancy Agreement transactions that were fair and reasonable and in the interests of the Company and the shareholders as a whole.

Assurance procedures performed by the Auditor of the Company

The Company's auditor was engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the above-mentioned continuing connected transaction disclosed by the Group in this Report in accordance with Main Board Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

With regard to the Related Party Transactions as disclosed in Note 36(a) to 36(c) (other than the Tenancy Agreement transactions mentioned above) to the consolidated financial statements, they constitute fully exempt connected transactions of the Company, for all of which the applicable requirements under the Listing Rules have been duly complied with.

GROUP'S BORROWINGS

Details of the Group's borrowings are set out in Notes 29 and 36 to the consolidated financial statements.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Lau Wai Piu, Mr. Peter Pun *OBE, JP* and Mr. Tsui Hing Chuen, William *JP*. Their principal duties include reviewing and supervising the Company's financial reporting process, internal control procedures and relationship with the Independent Auditor.

The audited consolidated financial statements for the year ended 31 March 2016 had been reviewed by the Audit Committee.

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, 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules throughout the Financial Year.

INDEPENDENT AUDITOR

The consolidated financial statements have been audited by Deloitte who will retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

On behalf of the Board

Lo Lin Shing, Simon
Chairman

Hong Kong, 27 June 2016

Deloitte.
德勤

TO THE SHAREHOLDERS OF MONGOLIA ENERGY CORPORATION LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Mongolia Energy Corporation Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 51 to 118, which comprise the consolidated statement of financial position as at 31 March 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 MATTER

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 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 June 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	8	**156,701**	12,259
Cost of sales		**(139,717)**	(94,558)
Gross profit (loss)		**16,984**	(82,299)
Other income	9	**3,717**	2,149
Other gains and losses	10	**40,524**	(43,820)
Other expenses	12	**–**	(22,603)
Administrative expenses		**(145,396)**	(124,889)
Changes in fair value on derivative component of convertible notes	29	**647,107**	736,059
Impairment loss on property, plant and equipment	3, 16	**(613,317)**	(6,037,959)
Impairment loss on intangible assets	3, 18	**(68,216)**	(721,275)
Impairment loss on development in progress	3, 19	**–**	(25,855)
Impairment loss on prepaid lease payment	3, 17	**(1,323)**	(14,136)
Impairment loss on exploration and evaluation assets	20	**–**	(285,676)
Impairment loss on available-for-sale financial asset	22	**(165)**	(464)
Impairment loss on amount due from associate		**(8)**	(9)
Finance costs	11	**(433,362)**	(247,253)
Loss before taxation	12	**(553,455)**	(6,868,030)
Income tax expense	13	**–**	–
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$)	15	**(0.32)**	(4.07)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2016

	2016 HK$'000	2015 HK$'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	16	**258,220**	856,404
Intangible assets	18	**27,920**	102,050
Development in progress	19	**–**	3,613
Exploration and evaluation assets	20	**–**	–
Interests in associates	21	**–**	–
Available-for-sale financial asset	22	**–**	–
Other asset		**1,150**	1,150
Prepaid lease payment	17	**513**	1,935
		287,803	965,152
Current assets			
Prepaid lease payment	17	**15**	40
Inventories	24	**22,802**	23,738
Trade and bill receivables	23	**29,711**	7,982
Other receivables, prepayments and deposits	25	**22,329**	26,905
Held-for-trading investments	26	**117,797**	68,289
Amounts due from associates	21	**–**	–
Cash and cash equivalents	27	**19,237**	13,083
		211,891	140,037
Current liabilities			
Trade payables	28	**129,204**	106,304
Other payables and accruals		**140,942**	127,985
Advances from a Director	36(a)	**1,383,023**	1,205,662
Deferred income	30	**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	29	**2,587,653**	2,891,847
Deferred income	30	**10,411**	10,976
		2,598,064	2,902,823
Net liabilities		**(3,752,884)**	(3,238,851)

	Notes	2016 HK$'000	2015 HK$'000
Financed by:			
Capital and reserves			
Share capital	32	**35,735**	33,783
Reserves		**(3,788,619)**	(3,272,634)
Equity attributable to owners of the Company		**(3,752,884)**	(3,238,851)

The consolidated financial statements on pages 51 to 118 were approved and authorised for issue by the Board of Directors on 27 June 2016 and are signed on its behalf by:

Lo Lin Shing, Simon
Director

Yvette Ong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2016

	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 2014	135,131	13,107,506	199,594	59,198	(14,701)	(9,858,681)	3,628,047
Loss for the year	–	–	–	–	–	(6,868,030)	(6,868,030)
Other comprehensive income							
Exchange differences arising on translation	–	–	–	–	1,132	–	1,132
Total comprehensive income (expense) for the year	–	–	–	–	1,132	(6,868,030)	(6,866,898)
Share option lapsed	–	–	–	(15,999)	–	15,999	–
Capital Reorganisation *(Note 32(a))*	(101,348)	(13,107,506)	3,252,299	–	–	9,956,555	–
At 31 March 2015	**33,783**	**–**	**3,451,893**	**43,199**	**(13,569)**	**(6,754,157)**	**(3,238,851)**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(553,455)**	**(553,455)**
Other comprehensive income							
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**42**	**–**	**42**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**42**	**(553,455)**	**(553,413)**
Issue of ordinary shares for settlement of accounts payables *(Note 32(b))*	**1,952**	**23,350**	**–**	**–**	**–**	**–**	**25,302**
Equity-settled share-based payments *(Note 33)*	**–**	**–**	**–**	**14,078**	**–**	**–**	**14,078**
Share option lapsed	**–**	**–**	**–**	**(21,429)**	**–**	**21,429**	**–**
At 31 March 2016	**35,735**	**23,350**	**3,451,893**	**35,848**	**(13,527)**	**(7,286,183)**	**(3,752,884)**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2016

	Notes	2016 HK$'000	2015 HK$'000
Operating activities			
Loss before taxation		**(553,455)**	(6,868,030)
Interest income	9	**(107)**	(229)
Write back of payables		**–**	(408)
Exchange loss		**637**	4,964
Finance costs	11	**433,362**	247,253
Early termination cost for a contractor	10	**7,091**	–
Loss on write off of property, plant and equipment	10	**801**	39,413
Loss on write off of development in progress	10	**3,613**	–
Loss on write off of exploration and evaluation assets	10	**–**	140
Loss on write off of prepayments for exploration and evaluation expenditure	10	**–**	10,458
(Gain) loss on disposal of property, plant and equipment	10	**(585)**	43
Gain on extinguishment of the financial liabilities	10	**(2,788)**	–
Amortisation of intangible assets	18	**5,914**	31,092
Amortisation of prepaid lease payment	17	**41**	163
Amortisation of deferred income	30	**(1,290)**	(422)
Depreciation	16	**15,656**	35,326
Changes in fair value on held-for-trading investments	10	**(49,508)**	(12,011)
Changes in fair value on derivative component of convertible notes	29	**(647,107)**	(736,059)
Impairment loss on property, plant and equipment	16	**613,317**	6,037,959
Impairment loss on prepaid lease payment	17	**1,323**	14,136
Impairment loss on intangible assets	18	**68,216**	721,275
Impairment loss on development in progress	19	**–**	25,855
Impairment loss on exploration and evaluation assets	20	**–**	285,676
Impairment loss on amounts due from associates		**8**	9
Impairment loss on available-for-sale financial asset	22	**165**	464
Equity-settled share-based payments	33	**14,078**	–
Operating cash flows before movements in working capital		**(90,618)**	(162,933)
Decrease (increase) in inventories		**861**	(23,426)
Increase in trade and bill receivables		**(21,729)**	(7,982)
Decrease (increase) in other receivables, prepayments and deposits		**4,219**	(5,349)
Increase in trade payables		**23,086**	38,398
Increase in other payables and accruals		**34,410**	14,843
Net cash used in operations		**(49,771)**	(146,449)
Income tax paid		**–**	–
Net cash used in operating activities		**(49,771)**	(146,449)

	Notes	2016 HK$'000	2015 HK$'000
Investing activities			
Purchase of property, plant and equipment	16	**(32,740)**	(241,102)
Proceeds received from disposal of property, plant and equipment		**723**	2,885
Purchase of intangible assets	18	**–**	(1,625)
Purchase of prepaid lease payment	17	**–**	(625)
Exploration and evaluation asset additions	20	**–**	(140)
Advances to associates		**(8)**	(9)
Available-for-sale financial asset addition	22	**(165)**	(464)
Bank interest received		**107**	229
Government grant received	30	**1,316**	–
Net cash used in investing activities		**(30,767)**	(240,851)
Financing activities			
Advances from a Director		**86,912**	354,347
Transaction costs on issuance of convertible notes		**–**	(1,153)
Net cash from financing activities		**86,912**	353,194
Net increase (decrease) in cash and cash equivalents		**6,374**	(34,106)
Cash and cash equivalents at beginning of the year		**13,083**	48,566
Effect of foreign exchange rate changes		**(220)**	(1,377)
Cash and cash equivalents at end of the year		**19,237**	13,083

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 current 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.

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

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)	Clarifications 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.

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

HKFRS 9 "Financial Instruments" *(Continued)*

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 expected credit 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.

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

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 disclosures are made in relation to lease commitment as in Note 34(a).

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 above 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 means that it is not economically viable to continue production in large scale after taking into account the significant transportation costs that are necessary to be incurred. The Directors only expected to ramp up production in 2017 once market prices recover 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 current low production scale).

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance (the "**CO**").

The disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits and to streamline with HKFRSs, which became effective for the Company for the year ended 31 March 2016. Accordingly the presentation and disclosure of information in the consolidated financial statements for the year ended 31 March 2016 have been changed to comply with these new requirements. Comparative information in respect of the year ended 31 March 2015 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange of goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the result of the valuation technique equals the transaction price. Calibration ensures that the valuation technique reflects current market conditions, and it helps the Group to determine whether an adjustment to the valuation technique is necessary (e.g. there might be a characteristic of the asset or liability that is not captured by the valuation technique). After initial recognition, when measuring fair value using a valuation technique or techniques that use unobservable inputs, the Group ensures that those valuation techniques reflect observable market data (e.g. the price for a similar asset or liability) at the measurement date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 "Financial Instruments: Recognition and Measurement" are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 "Impairment of Assets" to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated statement of profit or loss as follows:

Coal sales

Revenue from the sale of coal is recognised when persuasive evidence, usually in the form of an executed sales agreement, or an arrangement exists, indicating there has been a transfer of risks and rewards to the customer, no further work or processing is required by the Group, the quantity and quality of the coal has been determined with reasonable accuracy, the price is fixed or determinable, and collectability is reasonably assured. This is when title passes.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income

The Group's policy for recognition of revenue from operating leases is described in the accounting policy below.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in the consolidated statement of profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to the consolidated statement of profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated statement of profit or loss for the period.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to the consolidated statement of profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme (the "**MPF Scheme**") and other defined contribution retirement benefit plans are recognised as expenses when employees have rendered service entitling them to the contributions.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss because items of income or expense that are taxable or deductible in other years and items that are never taxable nor deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in the consolidated statement of profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Extinguishing financial liabilities with equity instruments

When the Company issues equity instruments to a creditor to extinguish all or part of a financial liability, the equity instruments so issued are regarded as consideration paid. The Group removes a financial liability from the consolidated statement of financial position when it is extinguished in accordance with HKAS 39.

The Group measures the consideration paid at the fair value of the equity instruments issued. The difference between the carrying amount of the financial liability extinguished and the consideration paid is recognised in profit or loss. The equity instruments are recognised initially and measured at the date the financial liability is extinguished.

Property, plant and equipment

Property, plant and equipment including mineral properties held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Other than mining structures and mineral properties, depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Mining structures

Mining structures included deferred stripping costs and mining related property, plant and equipment. In open pit mining operations, the removal of overburden and waste materials, referred to as stripping, is required to obtain access to the ore body. Stripping costs incurred during the development phase of a mine are capitalised as stripping activity asset forming part of the cost of constructing the mining structure. Stripping costs incurred during the production phase of a surface mine are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to probably future economic benefits from the mineral structure by improving the access to the ore body, the component of the ore body for which assess has been improved is identifiable and the costs associated with that component can be reliably measured, in which case the stripping costs would be capitalised as stripping activity asset included in property, plant and equipment – mining structures.

Mining structures are depreciated on the unit-of-production method utilising only proven and probable coal reserves in the depletion base, or based on the useful lives of respective items of property, plant and equipment, whichever is appropriate.

Mineral properties

Mineral properties incorporate both the mining rights (intangible) and the underlying mineral reserve (tangible) elements. Mineral properties are classified as property, plant and equipment to the extent the tangible reserve is the more significant element. Mineral properties comprise costs of acquisition of mining rights and capitalised exploration costs which are capitalised initially under exploration and evaluation assets and transferred to property, plant and equipment as mineral properties when the technical feasibility and commercial viability of extracting mineral resources become demonstrable.

On the commencement of commercial production, depreciation of mineral properties will be provided on the unit-of-production method utilising only proven and probable coal reserves in the depletion basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction in progress

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Intangible assets

Intangible assets acquired separately

Software acquired separately and with finite useful lives is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets (exclusive right of use of paved road) are measured on initial recognition at cost. Following the initial recognition, intangible assets are stated at cost less amortisation (where the estimated useful life is finite) and impairment losses.

Intangible assets (exclusive right of use of paved road)

The exclusive right of use of paved road is amortised on a straight-line basis over its licence period.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognised.

Development in progress

Development in progress includes the construction cost of a road of which the Group has a right of use. Development in progress is carried at cost less any recognised impairment losses. Development in progress is transferred to intangible assets with finite useful lives when the road construction work is completed and the road is ready for its intended use.

Prepaid lease payment

Prepaid lease payment relating to leasehold land is stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The cost of prepaid lease payment is amortised on a straight-line basis over the shorter of the relevant lease/land use right or the operation period of the relevant entity.

Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses. Exploration and evaluation assets include the cost of mining and exploration rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources. When the technical feasibility and commercial viability of extracting mineral resources become demonstrable, previously recognised exploration and evaluation assets are reclassified as mining structures and mineral properties under property, plant and equipment. These assets are assessed for impairment annually and before reclassification.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is reviewed at least annually and adjusted for impairment in accordance with HKAS 36 "Impairment of Assets" and whenever one of the following events or changes in circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; or
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

Prepayments for exploration and evaluation expenditure

Prepayments for exploration and evaluation expenditure, pending exploration work to be performed, are stated at cost and are recognised as exploration and evaluation assets when work has been performed.

Impairment loss on tangible and intangible assets (excluding exploration and evaluation assets)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or a cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of profit or loss. When allocating an impairment loss to individual assets within a cash generating unit, the carrying amount of an individual asset should not be reduced below the highest of its fair value less cost of disposal (if measurable), its value in use (if determinable), and zero. If this results in an amount being allocated to an asset which is less than its pro rata share of the impairment loss, the excess is allocated to the remaining assets within the cash generating unit on a pro rata basis.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of production and purchase, an appropriate portion of fixed and variable overhead costs, including the stripping costs incurred during the production phase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and the costs necessary to make the sale.

When coal inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount inventories recognised as an expense in the period in which the reversal occurs.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("**FVTPL**"), loans and receivables and available-for-sale ("**AFS**") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near future; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Subsequent to initial recognition, held for trading investments are measured at fair value, with changes in fair value arising from remeasurement recognised directly in the consolidated statement of profit or loss in the period in which they arise. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any dividend or interest earned on the financial assets. Fair value is determined in the manner described in Note 26.

Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bill receivables, other receivables and deposits, amounts due from associates and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For certain categories of financial assets, such as trade and bill receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30-90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts due from associates, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of profit or loss. When amounts due from associates are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the consolidated statement of profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debts and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Convertible note

Convertible notes issued by the Company that contain both debt and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the debt and conversion option components are recognised at fair value.

In subsequent periods, the debt component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

Transaction costs that related to the issue of the convertible notes are allocated to the debt and derivative components in proportion to their fair value. Transaction costs relating to the derivative component are charged to consolidated statement of profit or loss. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible notes using the effective interest method.

Other financial liabilities

Trade payables, other payables, advances from a Director and convertible notes are subsequently measured at amortised cost, using the effective interest method.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated statement of profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of profit or loss.

An exchange between the Group and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are other key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's properties. In order to calculate reserves, estimates and assumptions about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices are required.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Because the economic assumptions used to estimate reserve changes from period to period, and additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- carrying values of Khushuut Related Assets may be affected due to changes in estimated future cash flows, which may result in further impairment loss or a reversal of previously recognised impairment loss on these assets; and

- depreciation, depletion and amortisation charged in the consolidated statement of profit or loss may change where such charges are determined by the unit-of-production basis, or where the useful economic lives of assets change.

Fair value of derivative financial instruments

As described in Note 29, the Directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative components of the convertible notes, Binomial Valuation Model is used for valuation of the component which involves several key assumptions and estimates including share price volatility, dividend yield and risk free rate. The Directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

As at 31 March 2016, fair value of derivative component of the convertible notes is HK$534,217,000 (2015: HK$1,181,324,000).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of Khushuut Related Assets

As described in Note 3, the Group engaged an independent valuer to determine the recoverable amount of the Khushuut Related Assets. For the purposes of impairment testing, the Khushuut Related Assets are treated as a cash generating unit and its recoverable amount has been determined based on a value in use calculation, which requires the Group to estimate the future cash flows expected to arise from the cash generating unit, using discounted cash flow analysis, in order to calculate the present value. Key assumptions used in the calculation include the current selling price for coking coal, growth rate, discount rate and estimate timeline for commercial coal production. During the year ended 31 March 2016, an impairment amounting to HK$682,856,000 (2015: HK$6,799,225,000) was recognised against the Khushuut Related Assets as its recoverable amount is lower (2015: lower) than its carrying values. Changes to the assumptions underlying the assessment of the recoverable amount may have a significant effect on the recoverable amount of the Khushuut Related Assets. Where there are favourable or unfavourable changes in facts and circumstances which result in revision of the estimated future cash flows for the purpose of determining the value in use, a reversal of impairment or further impairment loss may arise.

As at 31 March 2016, the carrying value of Khushuut Related Assets is HK$272,220,000 (net of accumulated impairment loss of HK$15,470,421,000 (2015: carrying value of HK$950,040,000, net of accumulated impairment loss of HK$14,787,565,000).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes advances from a Director disclosed in Note 36(a) and convertible notes disclosed in Note 29, net of cash and cash equivalents and equity of the Group, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly, taking into account the cost and risk associated with the capital. The Group will balance its capital structure through new shares issues, the issue of new debt or the redemption of the existing debt.

7. FINANCIAL INSTRUMENTS

7a. Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	**53,087**	29,132
Available-for-sale financial asset	**–**	–
Held-for-trading investments	**117,797**	68,289
Financial liabilities		
Measured at amortised cost	**3,692,975**	3,148,069
Embedded derivative component of convertible notes	**534,217**	1,181,324

7b. Financial risk management objectives and policies

The Group's financial instruments include trade and bill receivables, other receivables and deposits, held-for-trading investments, cash and cash equivalents, trade payables, other payables, advances from a Director and convertible notes. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in Hong Kong, the People's Republic of China (the "**PRC**") and Mongolia. The exposure to foreign currency risk mainly arises from trade receivables, other receivables, cash and cash equivalents, trade payables, other payables, advances from a Director, and convertible notes denominated in currencies other than functional currency of the relevant group entities.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
HK$	**3,442,602**	2,921,727	**6,241**	4,097
Renminbi ("**RMB**")	**53,488**	83,258	**119**	10,806
Mongolian Tugrik ("**MNT**")	**11,530**	49,955	**4,394**	6,255

The Group does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

7. FINANCIAL INSTRUMENTS *(Continued)*

7b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) *Currency risk* *(Continued)*

Sensitivity analysis

The currency risk on HK$ is insignificant as the HK$ is pegged with the US$.

The Group is mainly exposed to the currencies of RMB and MNT against US$, the functional currency of relevant group entities.

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in US$ against the relevant foreign currencies. 5% (2015: 5%) is the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. A negative/positive number below indicates an increase/decrease in post-tax loss where US$ weakening 5% (2015: 5%) against RMB and MNT respectively. For a 5% (2015: 5%) strengthen of US$ against RMB and MNT respectively, there would be an equal and opposite impact on the loss, vice versa.

	RMB		MNT	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Increase in loss for the year *(Note)*	**(2,668)**	(3,623)	**(357)**	(2,185)

Note:

This is mainly attributable to the exposure from outstanding trade and other receivables, bank balances and trade and other payables denominated in RMB and MNT at the end of the reporting period.

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate convertible notes (see Note 29). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 27) and advances from a Director (see Note 36(a)).

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group's cash flow interest rate risk is mainly due to the Hong Kong Prime Rate in relation to advances from a Director.

Sensitivity analysis

The Group's interest rate risk arises principally from advances from a Director as the effect on bank balances is considered not significant. The sensitivity analysis below has been prepared assuming that the change in interest rate had occurred at the end of the respective reporting period and had been applied to the exposure to interest rate risk for the existence of advances from a Director at that date and outstanding for the whole year. The 50 basis points represent the best estimation of the possible change in the interest rates over the period until the end of the next reporting period.

As at 31 March 2016, if interest rates had decreased/increased by 50 basis points and all other variables were held constant, the Group's loss for the year would decrease/increase by HK$5,837,000 (2015: HK$5,403,000). The Group has no other significant interest rate risk.

7. FINANCIAL INSTRUMENTS *(Continued)*

7b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(iii) Other price risk

(a) Price risk on equity securities

The Group is exposed to equity price risk through its investments in listed equity securities classified as held-for-trading investments. Management regularly reviews the expected returns from holding these investments on an individual basis.

The Group's equity price risk is mainly concentrated on entities operating in the network security and service industry.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period for held-for-trading investments.

If the listed share prices of the respective equity instruments had been 5% higher/lower, the loss for the year ended 31 March 2016 would decrease/increase by HK$5,890,000 (2015: HK$3,414,000) as a result of the changes in fair value of held-for-trading investments.

The Group is also exposed to equity price risk in relating to its available-for-sale investment. No sensitivity analysis has been performed as the investment is measured at cost less impairment and the management considers that the risk is insignificant. As at 31 March 2016, the investment has been fully impaired.

(b) Price risk on embedded derivatives components of the convertible notes (defined in Note 29)

For the year ended 31 March 2016, the Company is required to estimate the fair value of the derivative component of the convertible notes, including conversion options, with changes in fair value to be recognised in the consolidated statement of profit or loss as long as the convertible notes are outstanding. The fair value will be affected either positively or negatively, amongst others, by the changes in the Company's share price, share price volatility and risk free rate.

Sensitivity analysis

If the listed share price of the Company had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the year would increase by HK$28,337,000 (2015: HK$61,844,000)/decrease by HK$28,337,000 (2015: HK$61,843,000), as a result of changes in fair value of the derivative component of the convertible notes.

If the volatility of listed share prices of the Company had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the year would increase by HK$13,249,000 (2015: HK$9,637,000)/decrease by HK$13,933,000 (2015: HK$1,583,000), as a result of changes in fair value of the derivative component of the convertible notes.

In management's opinion, the sensitivity analyses above are unrepresentative of the inherent price risk as the pricing model used in the valuation of these embedded derivatives involves multiple variables and certain variables are interdependent.

7. FINANCIAL INSTRUMENTS *(Continued)*

7b. Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 March 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Other than concentration risk on liquid funds which are deposited with banks that have good credit ratings, the Group has concentration of credit risk as 99% (2015: 100%) of the total trade and bill receivables was due from the Group's largest customer within the coal mining segment.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and compliance with loan covenants. The amount of net current liabilities is HK$1,442,623,000 (2015: HK$1,301,180,000).

As at 31 March 2016, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future as Mr. Lo has provided facilities amounting to HK$1,900.0 million with HK$517.0 million unutilised to meet the Group's future funding needs.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

7. FINANCIAL INSTRUMENTS *(Continued)*

7b. Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

2016

	Weighted average effective interest rate %	Less than 1 month or repayable on demand HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	1–5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 March 2016 HK$'000
Trade payables *(Note 28)*	–	125,567	3,637	–	–	129,204	129,204
Other payables	–	93,053	5,305	28,930	24	127,312	127,312
Advances from a Director							
– floating rate *(Note 36(a))*	8%	1,383,023	–	–	–	1,383,023	1,383,023
Convertible notes (debt component)							
– fixed rate *(Note 29)*	19.96%	–	–	–	3,987,067	3,987,067	2,053,436
		1,601,643	8,942	28,930	3,987,091	5,626,606	3,692,975

2015

	Weighted average effective interest rate %	Less than 1 month or repayable on demand HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	1–5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 March 2015 HK$'000
Trade payables *(Note 28)*	–	92,432	699	13,173	–	106,304	106,304
Other payables	–	60,078	1,159	64,323	20	125,580	125,580
Advances from a Director							
– floating rate *(Note 36(a))*	8%	1,205,662	–	–	–	1,205,662	1,205,662
Convertible notes (debt component)							
– fixed rate *(Note 29)*	19.96%	–	–	–	3,987,067	3,987,067	1,710,523
		1,358,172	1,858	77,496	3,987,087	5,424,613	3,148,069

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

7. FINANCIAL INSTRUMENTS *(Continued)*

7c. 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.

Financial assets/ financial liabilities	Fair value as at 31 March 2016	Fair value as at 31 March 2015	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input	Relationship of unobservable input to fair value
1) Listed equity securities classified as held-for-trading investments	**Listed equity securities: HK$117,797,000**	Listed equity securities: HK$68,289,000	Level 1	– Quoted bid prices in an active market	N/A	N/A
2) Embedded derivatives component of convertible notes	**HK$534,217,000**	HK$1,181,324,000	Level 3	– Binomial Valuation Model – The key inputs are stock price, exercise price, option life, risk free rate, volatility and dividend yield	– Volatility is 140.00% (2015: 183.60%)	– A slight increase in the volatility would result in significant higher fair value measurement, and vice versa *(Note)*

Note:

Sensitivity analysis is performed in Note 7(b).

There was no transfer between Levels 1 and 2 for both years.

Fair value measurements and valuation processes

The executive Directors are responsible for determining the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The executive Directors work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The executive Directors review the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

7. FINANCIAL INSTRUMENTS *(Continued)*

7c. 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 2014	54,419
Initial recognition	1,862,964
Changes in fair value recognised in the consolidated statement of profit or loss	(736,059)
At 31 March 2015	**1,181,324**
Changes in fair value recognised in the consolidated statement of profit or loss	**(647,107)**
At 31 March 2016	**534,217**

7d. 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 consolidated financial statements approximate their fair values.

8. 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)**

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and result *(Continued)*

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. 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.

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

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.*

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 March
Amounts included in the measure of segment loss or segment assets:

Coal mining

	2016 HK$'000	2015 HK$'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 PRC.

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

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

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

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

	Non-current assets	
	2016 **HK$'000**	2015 HK$'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).

9. OTHER INCOME

	2016 **HK$'000**	2015 HK$'000
Interest income	**107**	229
Government grant *(Note 30)*	**1,769**	422
Sundry income	**1,841**	1,498
	3,717	2,149

10. OTHER GAINS AND LOSSES

	2016 HK$'000	2015 HK$'000
Changes in fair value on held-for-trading investments	**49,508**	12,011
Early termination cost for a contractor *(Note (b))*	**(7,091)**	–
Loss on write off of property, plant and equipment	**(801)**	(39,413)
Loss on write off of development in progress *(Note 19)*	**(3,613)**	–
Loss on write off of exploration and evaluation assets *(Note 20)*	**–**	(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)
Gain on extinguishment of financial liabilities *(Note 32(b))*	**2,788**	–
Net exchange loss	**(852)**	(5,777)
	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.*

11. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on advances from a Director *(Note 36(a))*	**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 29)*	**342,913**	107,509
	433,362	247,253

12. LOSS BEFORE TAXATION

	2016 HK$'000	2015 HK$'000
Loss before taxation has been arrived at after charging/(crediting):		
Directors' emoluments *(Note 14(a))*	**10,804**	6,757
Other staff costs:		
Salaries and other benefits (net of reimbursement from a related party) *(Note 36(c)(ii))*	**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) *(Note 36(c)(ii))*	**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) *(Note 36(c)(ii))*	**5,918**	7,769

13. INCOME TAX EXPENSE

	2016 HK$'000	2015 HK$'000
Current tax	–	–
Deferred tax *(Note 31)*	–	–
	–	–

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.

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	2016 HK$'000	2015 HK$'000
Loss before taxation	(553,455)	(6,868,030)
Calculated at a tax rate of 16.5%	(91,320)	(1,133,225)
Tax effect on income not subject to tax	(115,179)	(120,996)
Tax effect on expenses not deductible for tax purposes	176,322	1,147,832
Tax effect on deductible temporary differences not recognised	20,589	104,620
Tax effect on utilisation of deductible temporary differences previously not recognised	(7,618)	(3,600)
Tax effect on tax loss not recognised	17,206	5,369
Income tax expense	–	–

14. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and chief executive's emoluments

The remuneration of each of the Directors and the chief executive for the year ended 31 March 2016 is as follows:

Name of Directors	Fees HK$'000	Salaries HK$'000	Other benefits HK$'000	Equity-settled share-based payments HK$'000	Employer's contribution to MPF Scheme HK$'000	Total HK$'000
Executive Directors						
Lo Lin Shing, Simon	–	–	598	2,831	–	3,429
Yvette Ong	–	3,961	253	833	18	5,065
Non-executive Director						
To Hin Tsun, Gerald	10	–	–	500	–	510
Independent Non-executive Directors						
Peter Pun	100	–	–	500	–	600
Lau Wai Piu	100	–	–	500	–	600
Tsui Hing Chuen, William	100	–	–	500	–	600
	310	3,961	851	5,664	18	10,804

14. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

The remuneration of each of the Directors and the chief executive for the year ended 31 March 2015 is as follows:

Name of Directors	Fees HK$'000	Salaries HK$'000	Discretionary bonus HK$'000	Other benefits HK$'000	Equity-settled share-based payments HK$'000	Employer's contribution to MPF Scheme HK$'000	Total HK$'000
Executive Directors							
Lo Lin Shing, Simon	–	–	–	2,224	–	–	2,224
Yvette Ong	–	2,921	1,000	284	–	18	4,223
Non-executive Director							
To Hin Tsun, Gerald	10	–	–	–	–	–	10
Independent Non-executive Directors							
Peter Pun	100	–	–	–	–	–	100
Lau Wai Piu	100	–	–	–	–	–	100
Tsui Hing Chuen, William	100	–	–	–	–	–	100
	310	2,921	1,000	2,508	–	18	6,757

Yvette Ong is the chief executive of the Group. Her emolument disclosed above included those for services rendered by her as the chief executive.

During the two years ended 31 March 2016 and 2015, no Director waived any directors' emoluments.

The emoluments of the Executive Director shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The emoluments of the Non-executive Director and Independent Non-executive Directors shown above were mainly for their services as directors of the Company or its subsidiaries, as appropriate.

14. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Senior management's emoluments

Of the five individuals with the highest emoluments in the Group, two (2015: two) were Directors of the Company whose emoluments are included in Note (a) above. The emoluments of the remaining three (2015: three) highest paid individuals during the year are as follows:

	2016 HK$'000	2015 HK$'000
Basic salaries, other allowances and benefits in kind	**6,875**	5,213
Bonus	**704**	500
Contributions to MPF Scheme	**36**	47
Equity-settled share-based payments	**5,664**	–
	13,279	5,760

The emoluments fell within the following bands:

	Number of individuals 2016	2015
Emolument bands		
HK$1,500,001–HK$2,000,000	**–**	2
HK$2,000,001–HK$2,500,000	**1**	–
HK$2,500,001–HK$3,000,000	**–**	1
HK$5,000,001–HK$5,500,000	**1**	–
HK$5,500,001–HK$6,000,000	**1**	–
	3	3

15. LOSS PER SHARE

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

	2016 **HK$'000**	2015 HK$'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 **'000**	2015 '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.

16. PROPERTY, PLANT AND EQUIPMENT

	Mining structures	Mineral properties *(Note)*	Construction in progress	Leasehold improvements	Computer equipment	Furniture, fixtures and office equipment	Plant, machinery and other equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST									
At 1 April 2014	504,048	12,951,048	252,110	12,725	5,710	7,719	38,074	90,066	13,861,500
Exchange adjustments	–	(2,189)	–	–	–	–	–	(2)	(2,191)
Additions	135,145	–	89,323	60	2,081	509	6,237	7,747	241,102
Written off	–	–	(43,539)	–	(11)	–	(6,806)	(420)	(50,776)
Reclassification between categories	18,623	–	(245,336)	–	–	676	225,343	694	–
Disposals	–	–	–	–	(13)	(9)	(52)	(4,335)	(4,409)
At 31 March 2015	**657,816**	**12,948,859**	**52,558**	**12,785**	**7,767**	**8,895**	**262,796**	**93,750**	**14,045,226**
Exchange adjustments	**–**	**(49)**	**–**	**(17)**	**(43)**	**(31)**	**(6,886)**	**(965)**	**(7,991)**
Additions	**17,182**	**–**	**2,695**	**9,543**	**386**	**774**	**2,160**	**–**	**32,740**
Written off	**(4,680)**	**–**	**(638)**	**(11,496)**	**(1,170)**	**(1,237)**	**(122)**	**(1,315)**	**(20,658)**
Reclassification between categories	**19**	**–**	**(930)**	**–**	**2**	**–**	**909**	**–**	**–**
Disposals	**–**	**–**	**–**	**–**	**(522)**	**(6)**	**(23)**	**(207)**	**(758)**
At 31 March 2016	**670,337**	**12,948,810**	**53,685**	**10,815**	**6,420**	**8,395**	**258,834**	**91,263**	**14,048,559**
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
At 1 April 2014	281,005	6,695,895	55,221	11,917	4,890	5,669	15,388	58,346	7,128,331
Exchange adjustments	–	(5)	–	–	–	–	–	(2)	(7)
Charge for the year	4,185	6,744	–	477	840	637	11,119	11,324	35,326
Written off	–	–	(10,798)	–	(3)	–	(142)	(420)	(11,363)
Reclassification between categories	–	–	(3,182)	–	–	–	3,182	–	–
Disposals	–	–	–	–	(13)	(9)	(1)	(1,401)	(1,424)
Impairment loss recognised in profit or loss *(Note 3)*	326,943	5,480,454	9,929	–	–	–	204,557	16,076	6,037,959
At 31 March 2015	**612,133**	**12,183,088**	**51,170**	**12,394**	**5,714**	**6,297**	**234,103**	**83,923**	**13,188,822**
Exchange adjustments	**–**	**(1)**	**–**	**(17)**	**(23)**	**(15)**	**(6,089)**	**(834)**	**(6,979)**
Charge for the year	**721**	**1,811**	**–**	**4,016**	**960**	**815**	**3,772**	**3,561**	**15,656**
Written off	**(4,623)**	**–**	**–**	**(11,496)**	**(1,169)**	**(1,233)**	**(21)**	**(1,315)**	**(19,857)**
Disposals	**–**	**–**	**–**	**–**	**(522)**	**(6)**	**–**	**(92)**	**(620)**
Impairment loss recognised in profit or loss *(Note 3)*	**44,405**	**546,178**	**1,798**	**–**	**–**	**–**	**19,343**	**1,593**	**613,317**
At 31 March 2016	**652,636**	**12,731,076**	**52,968**	**4,897**	**4,960**	**5,858**	**251,108**	**86,836**	**13,790,339**
CARRYING VALUE									
At 31 March 2016	**17,701**	**217,734**	**717**	**5,918**	**1,460**	**2,537**	**7,726**	**4,427**	**258,220**
At 31 March 2015	**45,683**	**765,771**	**1,388**	**391**	**2,053**	**2,598**	**28,693**	**9,827**	**856,404**

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Note:

*On 16 July 2009, the Parliament of Mongolia enacted the Mining Prohibition Law (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 Authority of Mongolia (the "**MRAM**") and enter into agreement with the Ministry of Environment, Green Development and Tourism of Mongolia, MRAM and the governor of the relevant province.*

*During the year ended 31 March 2016, MoEnCo LLC ("**MoEnCo**"), a wholly-owned subsidiary of the Company, made revision to the coordinates of licensed area of 11888A which was the mining concession being affected by MPL by removing any overlap in the protected area. At 31 March 2016, the MRAM confirmed that no mining concession (At 31 March 2015: four mining concessions: 2913A, 4322A, 11888A and 15289A) owned by MoEnCo has partially overlapped with protected area under the MPL.*

The following estimated useful lives are used for the depreciation of property, plant and equipment:

Leasehold improvements	over unexpired lease terms
Computer equipment	3 years
Furniture, fixtures and office equipment	5–10 years
Plant, machinery and other equipment	10 years
Motor vehicles	5 years
Mineral properties	based on resources on a unit-of-production basis
Mining structures	based on resources on a unit-of-production basis or straight line method over 10 years, whichever is appropriate

The mineral properties incorporate both the mining rights (intangible) and the underlying mineral reserve (tangible) elements. The Directors consider the tangible reserve is the more significant element and hence the entire mineral properties are classified as property, plant and equipment.

17. PREPAID LEASE PAYMENT

	2016 HK$'000	2015 HK$'000
At beginning of the year	**1,975**	15,651
Additions	**–**	625
Amortisation	**(41)**	(163)
Impairment loss recognised in profit or loss	**(1,323)**	(14,136)
Exchange alignment	**(83)**	(2)
At the end of the year	**528**	1,975
Analysed for reporting purposes as:		
Current assets	**15**	40
Non-current assets	**513**	1,935
At the end of the year	**528**	1,975

Prepaid lease payment represents land use right in Xinjiang, the PRC.

18. INTANGIBLE ASSETS

	Software *(Note (a))* HK$'000	Exclusive right of use of paved road *(Note (b))* HK$'000	Total HK$'000
COST			
At 1 April 2014	2,323	1,906,297	1,908,620
Additions	1,625	–	1,625
At 31 March 2015	**3,948**	**1,906,297**	**1,910,245**
Disposals	**(45)**	**–**	**(45)**
At 31 March 2016	**3,903**	**1,906,297**	**1,910,200**
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 April 2014	2,319	1,053,509	1,055,828
Charge for the year	361	30,731	31,092
Impairment loss recognised in profit or loss *(Note 3)*	–	721,275	721,275
At 31 March 2015	**2,680**	**1,805,515**	**1,808,195**
Charge for the year	**541**	**5,373**	**5,914**
Disposals	**(45)**	**–**	**(45)**
Impairment loss recognised in profit or loss *(Note 3)*	**–**	**68,216**	**68,216**
At 31 March 2016	**3,176**	**1,879,104**	**1,882,280**
CARRYING VALUE			
At 31 March 2016	**727**	**27,193**	**27,920**
At 31 March 2015	1,268	100,782	102,050

Notes:

(a) The software has finite useful lives and is amortised on a straight-line basis over 3 years.

18. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

*(b) During the year ended 31 March 2009, an agreement was entered into between the Governor's Administration Office of Khovd Province of Mongolia (the "**Governor**") and MoEnCo, a wholly-owned subsidiary of the Company, regarding the right of use of a road granted by the Governor to MoEnCo subject to certain conditions. Under the terms of the agreement, MoEnCo will construct a road at its own cost from the Group's mine areas in Khushuut, Western Mongolia to the Yarant border crossing with Xinjiang, PRC, with the construction permit granted to MoEnCo from the Ministry of Road, Transportation and Tourism of the Mongolian government. In return, MoEnCo enjoys the rights, which was granted at the date of the agreement, for the unrestricted use of the road for 30 years (the "**Approved Period**"). The road will be opened to public use subject to certain weight restrictions whereupon the Group may direct users including commercial users. The Group is also responsible for maintenance of the road during the Approved Period. The Group will use the road mainly for the purpose of transporting coal from its mine areas to its customers in the PRC.*

In the year ended 31 March 2012, the Group had completed construction of 311 km of the road and the formal approval from the Mongolian government on the road commissioning was obtained. HK$1,906,297,000, representing 311 km of road construction costs, was transferred from development in progress as an exclusive right of use of paved road under intangible assets.

The exclusive right of use of paved road has finite useful lives and is amortised on a straight-line basis over its licence period and included in the cash generating unit with other Khushuut Related Assets for impairment assessment purpose.

19. DEVELOPMENT IN PROGRESS

	2016 **HK$'000**	2015 HK$'000
At beginning of the year	**3,613**	29,468
Written off	**(3,613)**	–
Impairment loss recognised in profit or loss *(Note 3)*	**–**	(25,855)
At end of the year	**–**	3,613

During the year ended 31 March 2016, the Group has written off all cost related to the development in progress in connection to the construction cost of another section of the road of approximately 29 km of which the Group has a right to use. The management is of the view that it is not economically feasible to further develop the remaining section of the road at this moment.

20. EXPLORATION AND EVALUATION ASSETS

	Mining and exploration rights *(Note (a))* HK$'000	Others *(Note (b))* HK$'000	Total 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 MPL. Zvezdametrika LLC ("***Z LLC***"), a wholly-owned subsidiary of the Company which owns the iron ore exploration concession, received a notice from 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.

20. EXPLORATION AND EVALUATION ASSETS *(Continued)*

Notes: (Continued)

(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.*

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

	2016 **HK$'000**	2015 HK$'000
Cost of associates		
Unlisted shares, at cost	**2,839**	2,839
Share of results	**(2,839)**	(2,839)
	–	–
Amounts due from associates	**10,941**	10,933
Impairment losses	**(10,941)**	(10,933)
	–	–

Details of the associates at 31 March 2016 and 2015 are as follows:

Name	**Place of incorporation**	**Principal place of operation**	**Particulars of issued share capital**	**Interest held**		**Principal activity**
				2016	2015	
eGuanxi (Cayman) Limited	Cayman Islands	Hong Kong	6,667,000 shares of US$1.00 each	**25%**	25%	Inactive
Profit Billion International Private Limited ("**Profit Billion**")*	Singapore	Singapore	10 shares of S$1.00 each	**20%**	20%	Investment holding

* *MoOiCo LLC ("**MoOiCo**") is wholly owned by Profit Billion and became inactive since the year ended 31 March 2014.*

There is no commitment contracted but not provided for in respect of further capital investment in associates as at 31 March 2016 (2015: Nil).

The amounts due from associates as at 31 March 2016 include shareholder's loans to MoOiCo (2015: MoOiCo). That amount is unsecured, interest free and repayable on demand.

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

(Continued)

Aggregate information of associates that are not individually material

	2016 HK$'000	2015 HK$'000
Total assets	**924**	926
Total liabilities	**(37,701)**	(37,718)
Net liabilities	**(36,777)**	(36,792)
Group's share of net assets of associates	**–**	–
Revenue	**–**	–
Profit for the year	**16**	227
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**16**	227
The Group's share of profit	**–**	–
Aggregate carrying amount of the Group's interests in these associates	**–**	–

The Group has discontinued recognition of its share of losses of all associates. The amounts of unrecognised share of losses of those associates as at year ended 31 March, extracted from the relevant management accounts of associates, both for the year and cumulatively, are as follows:

	2016 HK$'000	2015 HK$'000
Unrecognised share of profit of an associate for the year	**3**	45
Cumulative unrecognised share of losses of associates	**4,517**	4,520

22. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2016 HK$'000	2015 HK$'000
At beginning of the year	–	–
Addition	165	464
Less: impairment loss recognised in profit or loss	(165)	(464)
At end of the year	–	–

The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates cannot be measured reliably, wherein the impairment loss is determined by reference to the recoverable amount of the investment.

As at 31 March 2016, the Group had no capital commitments in respect of the investment.

23. TRADE AND BILL RECEIVABLES

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

24. INVENTORIES

	2016 HK$'000	2015 HK$'000
Coal	**18,702**	19,612
Materials and supplies	**4,100**	4,126
	22,802	23,738

25. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2016 HK$'000	2015 HK$'000
Other receivables	**2,458**	4,033
Prepayments	**3,415**	5,453
Deposits	**2,572**	5,047
Others	**13,884**	12,372
	22,329	26,905

26. HELD-FOR-TRADING INVESTMENTS

	2016 HK$'000	2015 HK$'000
Equity securities of companies listed in Hong Kong	**117,797**	68,289

Fair values are determined with reference to quoted market bid prices.

27. CASH AND CASH EQUIVALENTS

	2016 HK$'000	2015 HK$'000
Bank balances and cash	**19,237**	13,083

There was no short-term deposit placed for both years. Cash at bank earns interest at rates based on daily bank deposit rates.

28. TRADE PAYABLES

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

	2016 HK$'000	2015 HK$'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

29. 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 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'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

29. CONVERTIBLE NOTES *(Continued)*

2014 Convertible Notes with maturity date 21 November 2019

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

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

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

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$0.89 (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 the valuation of the derivative component. The major inputs into the model were as follows:

	21 November 2014	31 March 2015	**31 March 2016**
Stock price	HK$0.63	HK$0.34	**HK$0.19**
Exercise price	HK$0.92	HK$0.92	**HK$0.89**
Volatility *(Note (a))*	102.00%	183.60%	**140.00%**
Dividend yield	0%	0%	**0%**
Option life *(Note (b))*	5 years	4.65 years	**3.64 years**
Risk free rate	1.23%	0.99%	**0.78%**

Notes:

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

(b) The option life as at 31 March 2016 is 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. As at 31 March 2016, the debt component of the convertible notes is HK$2,053,436,000 and the fair value of the derivative component of the convertible notes is HK$534,217,000. No conversion was noted during the year ended 31 March 2016.

30. DEFERRED INCOME

	2016 HK$'000	2015 HK$'000
At beginning of the year	**12,242**	12,665
Granted *(Notes)*	**1,316**	–
Credited to profit or loss	**(1,290)**	(422)
Exchange adjustment	**(512)**	(1)
At end of the year	**11,756**	12,242
Analysed for reporting purposes as:		
Current liabilities	**1,345**	1,266
Non-current liabilities	**10,411**	10,976
	11,756	12,242

Notes:

During the year ended 31 March 2016, the Group received two government grants from the PRC government and details are as follows:

(a) *One is amounting to HK$1.3 million (equivalent to approximately RMB1.1 million) for the improvement of the machinery in the washing plant in Xinjiang, the PRC. It is recognised as deferred income in the consolidated statement of financial position and recognised in profit or loss on a systematic and rational basis over the useful life (i.e. 10 years) of the related asset.*

(b) *The other one is amounting to HK$0.5 million (equivalent to approximately RMB0.4 million) which is the subsidy for the cross border trading activities. It is credited to profit or loss immediately when received.*

31. DEFERRED TAXATION

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 March 2016, estimated tax losses of the Group not utilised amounted to HK$653,182,000 (2015: HK$629,107,000). Of the unutilised tax loss at 31 March 2015, the local tax authorities tentatively agreed to an amount of HK$548,903,000 to be claimed by the Group in offsetting future taxable profits. No deferred tax asset has been recognised for these tax losses as it is uncertain as to whether there will be sufficient future taxable profits to utilise these tax losses. Except for tax losses of HK$606,209,000 (2015: HK$501,930,000) expiring within 4 years, the remaining balances have no expiry date.

At the end of the reporting period, the Group has deductible temporary differences of HK$2,138,253,000 (2015: HK$2,013,471,000) due to the impairment loss recognised on Khushuut Related Assets and HK$15,369,000 (2015: HK$91,549,000) due to the allowance for inventory. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

32. SHARE CAPITAL

Authorised and issued share capital

	2016 HK$'000	2015 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.02 each *(Note (a))*	**300,000**	300,000

	Number of ordinary shares at HK$0.02 each	Amount HK$'000
Issued and fully paid:		
At 1 April 2014	6,756,547,828	135,131
Share consolidation and Capital Reduction *(Note (a)(i) and (ii))*	(5,067,410,871)	(101,348)
At 31 March 2015	**1,689,136,957**	**33,783**
Issue of ordinary shares for settlement of account payables *(Note (b))*	**97,621,542**	**1,952**
At 31 March 2016	**1,786,758,499**	**35,735**

Notes:

(a) *The Company completed the capital reorganisation (the "**Capital Reorganisation**") on 12 November 2014. It was approved by the shareholders at the special general meeting held on 12 November 2014 and details are as follows:*

(i) *The Company's share of every four issued existing shares of par value of HK$0.02 each were consolidated into one consolidated share of par value of HK$0.08 each (the "**Consolidated Share**"), 5,067,411,000 shares were reduced;*

(ii) *The par value of each issued Consolidated Share was reduced from HK$0.08 to HK$0.02 by cancelling the paid-up capital to the extent of HK$0.06 on each issued Consolidated Share ("**Capital Reduction**") and the credit arising from the Capital Reduction amounted to HK$101,348,000 was transferred to contributed surplus account of the Company;*

(iii) *The share premium of the Company amounting to HK$13,107,506,000 was cancelled ("**Share Premium Reduction**") and was transferred to contributed surplus account of the Company; and*

(iv) *The application of the contributed surplus account of the Company to set off the accumulated losses of the Company amounted to HK$9,956,555,000 as permitted by the Companies Act 1981 of Bermuda (as amended) and the Bye-Laws.*

(b) *During the current year, 97,621,542 shares in aggregate were issued to creditors for partial settlement of financial liabilities at the respective market prices of the shares on completion date at weighted-average price of HK$0.26 per share.*

33. SHARE-BASED PAYMENT

Equity-settled share option scheme

Under the share option schemes adopted by the Company on 28 August 2002 ("**2002 Share Option Scheme**") and 30 August 2012 respectively, options were granted to certain Directors, employees and consultants 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. The 2002 Share Option Scheme expired and was terminated on 27 August 2012. Upon the termination of the 2002 Share Option Scheme, no further options would be granted but the options granted prior to such termination continue to be valid and exercisable in accordance with provisions of the 2002 Share Option Scheme.

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

Movements of share options outstanding and their weighted average exercise prices are as follows:

	2016		**2015**	
	Weighted average exercise price per share HK$	**Number of share options**	Weighted average exercise price per share HK$	Number of share options
Exercisable at beginning of the year	**3.8550**	**21,700,000**	0.8615	132,800,000
Granted	**0.2510**	**84,500,000**	–	–
Lapsed	**16.4400**	**(2,700,000)**	0.6687	(46,000,000)
Adjusted for Capital Reorganisation	**–**	**–**	2.8912	(65,100,000)
Exercisable at end of the year	**0.5843**	**103,500,000**	3.8550	21,700,000

No share options were exercised during the year (2015: Nil).

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

33. SHARE-BASED PAYMENT *(Continued)*

Equity-settled share option scheme *(Continued)*

Share options outstanding at the end of the reporting period have the following exercisable period and exercise price:

	Exercise price			Number of shares subject to options	
Date of grant	Before Capital Reorganisation HK$	After Capital Reorganisation HK$	Exercisable period	2016	2015 *(Note)*
09-04-2010	4.110	16.440	09-04-2010 to 08-04-2015	**–**	2,700,000
29-02-2012	0.810	3.240	29-02-2012 to 28-02-2017	**7,625,000**	7,625,000
08-04-2013	0.320	1.280	08-04-2013 to 07-04-2018	**11,375,000**	11,375,000
09-09-2015	N/A	0.251	09-09-2015 to 08-09-2020	**84,500,000**	–
				103,500,000	21,700,000

Note:

The exercise price and number of shares subject to share options were adjusted for the Capital Reorganisation of the Company's and became effective on 13 November 2014.

The fair values of options granted during the current year were determined as follows:

	At 9 September 2015
Option value (at grant date)	HK$14,077,700
Fair value per option (at grant date)	HK$0.1666
Significant inputs into the valuation model:	
Exercise price	HK$0.25
Share price at grant date	HK$0.25
Expected volatility *(Note (a))*	85.18%
Risk-free interest rate	1.10%
Life of options	5 years
Expected dividend yield	0%
Valuation model applied	Binomial
Vesting period	Vest upon grant

Notes:

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

(b) HK$14,078,000 expense in relation to share options granted was recognised during the year ended 31 March 2016 (2015: Nil).

34. COMMITMENTS

In addition to those disclosed elsewhere in the consolidated financial statements, the Group has the following commitments:

(a) Commitments under operating leases

The Group as lessee

As at 31 March 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of offices and staff quarters as follows:

	2016 HK$'000	2015 HK$'000
Not later than one year	**4,835**	3,660
Later than one year and not later than five years	**379**	850
	5,214	4,510

Operating leases related to offices and staff quarters with lease terms of between 1 to 5 years (2015: 1 to 5 years).

(b) Capital commitments

As at 31 March 2016, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to HK$51,406,000 (2015: HK$53,445,000). These commitments are for the following projects:

	2016 HK$'000	2015 HK$'000
Exploration drilling	**24,105**	24,105
Other exploration related commitments	**253**	606
Purchase of property, plant and equipment	**7,668**	9,585
Road improvement and drilling equipment transport	**11,968**	11,968
Wash plant	**7,077**	6,863
Others	**335**	318
	51,406	53,445

35. CONTINGENT LIABILITIES

During the year ended 31 March 2013, the Company and MoEnCo 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.

36. RELATED PARTY TRANSACTIONS

(a) Advances from Mr. Lo

	2016 **HK$'000**	2015 HK$'000
Balance of advances	**1,383,023**	1,205,662
Interest charge for the year	**90,449**	71,105

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. The interest expense is charged at the Hong Kong Prime Rate plus 3% for both years.

(b) Other loan payable to and interest charge on convertible note by a related party – Golden Infinity

	2016 **HK$'000**	2015 HK$'000
Convertible note payable	**419,974**	452,347
Interest charge on convertible note for the year	**16,269**	12,250
Interest charge on other loan for the year	**–**	6,997

Note:

Mr. Lo has a controlling interest in Golden Infinity. Details of the convertible note held by Golden Infinity are set out in Note 29.

36. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with related parties

	2016 HK$'000	2015 HK$'000
Rental income received from a related party *(Note (i))*	**894**	2,133
Rental expenses paid to related parties *(Note (i))*	**3,297**	354
Reimbursement of sharing of administrative services from a related party *(Notes (i) and (ii))*	**7,036**	–

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.

(d) Balance with related parties

	2016 HK$'000	2015 HK$'000
Rental deposits paid to related parties *(Note (i))*	**343**	2

Note:

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

(e) Key management compensation

The remuneration of Directors, represented key management of the Group, during the year was as follows:

	2016 HK$'000	2015 HK$'000
Basic salaries, other allowances and benefits in kind	**5,122**	6,739
Equity-settled share-based payments	**5,664**	–
Contributions to MPF Scheme	**18**	18
	10,804	6,757

Note:

During the year ended 31 March 2016, 34,000,000 share options were granted to the Directors (2015: Nil). Options granted were immediately vested at the date of grant. The fair values of the total options at the date of grant were determined using the Binomial Valuation Model.

37. MAJOR NON-CASH TRANSACTIONS

Apart from the non-cash transactions disclosed in Note 29, Note 32(b) and Note 33, the Group has no other major non-cash transactions for both years.

38. STATEMENT OF FINANCIAL POSITION – THE COMPANY

	2016 HK$'000	2015 HK$'000
Non-current assets		
Property, plant and equipment	**210,689**	740,998
Intangible assets	**5,584**	20,319
Amounts due from subsidiaries	**137,520**	240,969
Development in progress	**–**	53
Interests in subsidiaries	**–**	–
Interests in associates	**–**	–
	353,793	1,002,339
Current assets		
Other receivables, prepayments and deposits	**814**	1,100
Amounts due from associates	**–**	–
Cash and cash equivalents	**6,171**	4,052
	6,985	5,152
Current liabilities		
Other payables and accruals	**45,327**	44,633
Advances from a Director	**1,383,023**	1,205,662
Amount due to a subsidiary	**205,425**	205,430
	1,633,775	1,455,725
Net current liabilities	**(1,626,790)**	(1,450,573)
Total assets less current liabilities	**(1,272,997)**	(448,234)
Non-current liabilities		
Convertible notes	**2,587,653**	2,891,847
Net liabilities	**(3,860,650)**	(3,340,081)
Financed by:		
Capital and reserves		
Share capital	**35,735**	33,783
Reserves	**(3,896,385)**	(3,373,864)
Equity attributable to owners of the Company	**(3,860,650)**	(3,340,081)

39. RESERVE – THE COMPANY

	Share premium	Contributed surplus *(Note)*	Share options reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 April 2014	13,107,506	199,594	59,198	(9,956,555)	3,409,743
Loss for the year	–	–	–	(6,884,955)	(6,884,955)
Share option lapsed	–	–	(15,999)	15,999	–
Capital Reorganisation *(Note 32)*	(13,107,506)	3,252,299	–	9,956,555	101,348
Balance at 31 March 2015	–	3,451,893	43,199	(6,868,956)	(3,373,864)
Issue of ordinary shares for settlement of accounts payables	23,350	–	–	–	23,350
Loss for the year	–	–	–	(559,949)	(559,949)
Equity-settled share-based payments	–	–	14,078	–	14,078
Share option lapsed	–	–	(21,429)	21,429	–
Balance at 31 March 2016	**23,350**	**3,451,893**	**35,848**	**(7,407,476)**	**(3,896,385)**

Note:

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 March 2016 and 2015:

Name of subsidiaries	Place of incorporation/ establishment	Particulars of issued share capital/registered capital	Effective interest held		Place of operation	Principal activities
			2016	2015		
Cyber Network Technology Limited*	British Virgin Islands	1 share of US$1.00	**100%**	100%	Hong Kong	Investment holding
Gamerian Limited*	British Virgin Islands	1 share of US$1.00	**100%**	100%	Hong Kong	Investment holding
Mongolia Energy Corporation (Greater China) Limited*	Hong Kong	2 shares with no par value	**100%**	100%	Hong Kong	Management services
Mongolia Energy Corporation (HK) Limited*	Hong Kong	1 share with no par value	**100%**	100%	Hong Kong	Management services
Mongolia Energy Corporation Services Limited*	Hong Kong	2 shares with no par value	**100%**	100%	Hong Kong	Provision of secretarial and nominee services
MoEnCo	Mongolia	1,010,000 shares of US$1.00 each	**100%**	100%	Mongolia	Minerals exploration and mining activities
Z LLC	Mongolia	100,000 shares of US$1.00 each	**100%**	100%	Mongolia	Holding iron ore exploration licence
烏魯木齊蒙富礦業有限公司#	The PRC	RMB14,299,899 (2015: RMB14,299,899)	**100%**	100%	The PRC	Provision of mining and exploration advisory service
新疆蒙科能源科技有限公司#	The PRC	RMB216,415,136 (2015: RMB185,030,367)	**100%**	100%	The PRC	Trading of coal and operation of wash plant

* *Subsidiaries directly held by the Company*

\# *Wholly foreign owned enterprise established in the PRC*

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

41. RETIREMENT BENEFITS SCHEME

The MPF Scheme is available to all employees aged 18 to 65 and with at least 59 days of service under employment in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum relevant income for contribution purposes is HK$25,000 per month and revised to HK$30,000 per month starting from 1 June 2014. The employees are entitled to the full benefit of the Group's contributions and accrued returns irrespective of their length of service with the Group but the benefits are required by law to be presented until the retirement age of 65.

The employees of the Group's subsidiaries which operate in Mongolia are required to participate in the social insurance scheme operated by the local government. According to the "Social Insurance Law of Mongolia", these subsidiaries have a duty to withhold 10% from employees' salary or similar income and 13% as employers' contribution. Employers' contributions are charged to profit or loss as they become payable in accordance with the social insurance scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal governments. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

FIVE YEARS SUMMARY OF RESULTS, ASSETS AND LIABILITIES

Results of the Group for the year ended March 31

	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016** **HK$'000**
Turnover	6,215	11,792	498	12,259	**156,701**
Loss attributable to owners of the Company	(4,832,172)	(3,698,818)	(1,038,124)	(6,868,030)	**(553,455)**
	(Restated)	(Restated)	(Restated)		
Loss per share (HK cents) *(Note)*					
– Basic	2.92	2.19	0.61	4.07	**0.32**
– Diluted	2.92	2.19	0.61	4.07	**0.32**

Assets and liabilities of the Group at March 31

	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016** **HK$'000**
Total assets	11,543,781	8,336,858	8,056,158	1,105,189	**499,694**
Less: total liabilities	(3,198,467)	(3,690,756)	(4,428,111)	(4,344,040)	**(4,252,578)**
Total net assets (liabilities)	8,345,314	4,646,102	3,628,047	(3,238,851)	**(3,752,884)**

Note: As a result of the capital reorganisation completed on 12 November 2014, figures for the years from 2012 to 2014 have been restated for comparative purpose.

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-Executive Director

Mr. To Hin Tsun, Gerald

Independent Non-Executive Directors

Mr. Peter Pun *OBE, JP*
Mr. Tsui Hing Chuen, William *JP*
Mr. Lau Wai Piu

COMPANY SECRETARY

Mr. Tang Chi Kei

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

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Industrial and Commercial Bank of China (Asia) Limited
Public Bank (Hong Kong) Limited

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本年報之中文譯本可向蒙古能源有限公司索取。
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CHINESE TRANSLATION

The Chinese translation of this Report is available on request from Mongolia Energy Corporation Limited. Where the English and the Chinese texts conflict, the English text prevails.

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