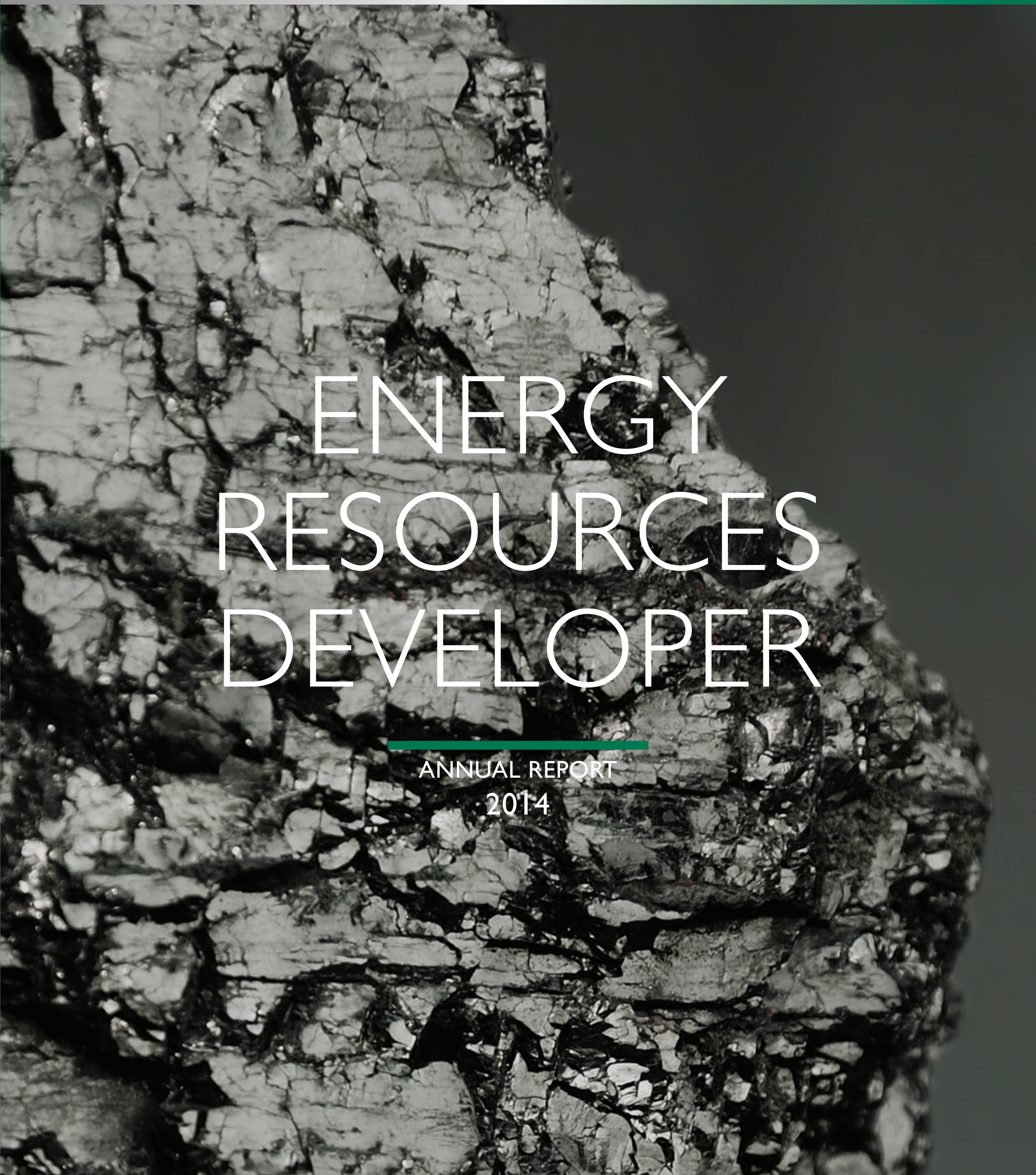
MONGOLIA ENERGY CORPORATION

蒙古能源有限公司

Incorporated in Bermuda with limited liability

Stock Code: 276



ENERGY RESOURCES DEVELOPER

ANNUAL REPORT 2014

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 favorable 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.

THE DRY PROCESSING PLANT AT THE KHUSHUUT MINE SITE

CONTENTS

Mongolia is an independent country located in east and central Asia, bordering Russia to the north and China to the south, east, and west. In terms of volume and variety of mineral resources, Mongolia ranks among the richest countries, possessing prospected deposits of ferrous, non-ferrous, rare, and precious light metals as well as rare earth elements. There are also numerous deposits of non-metallic minerals and fossil fuels. The most important minerals in terms of economic value are copper, molybdenum, fluorite, coal, gold, and rare elements.

(Source: Government of Mongolia)

Border station

Khushuut Coal Mine

Local road, Uyench canyon

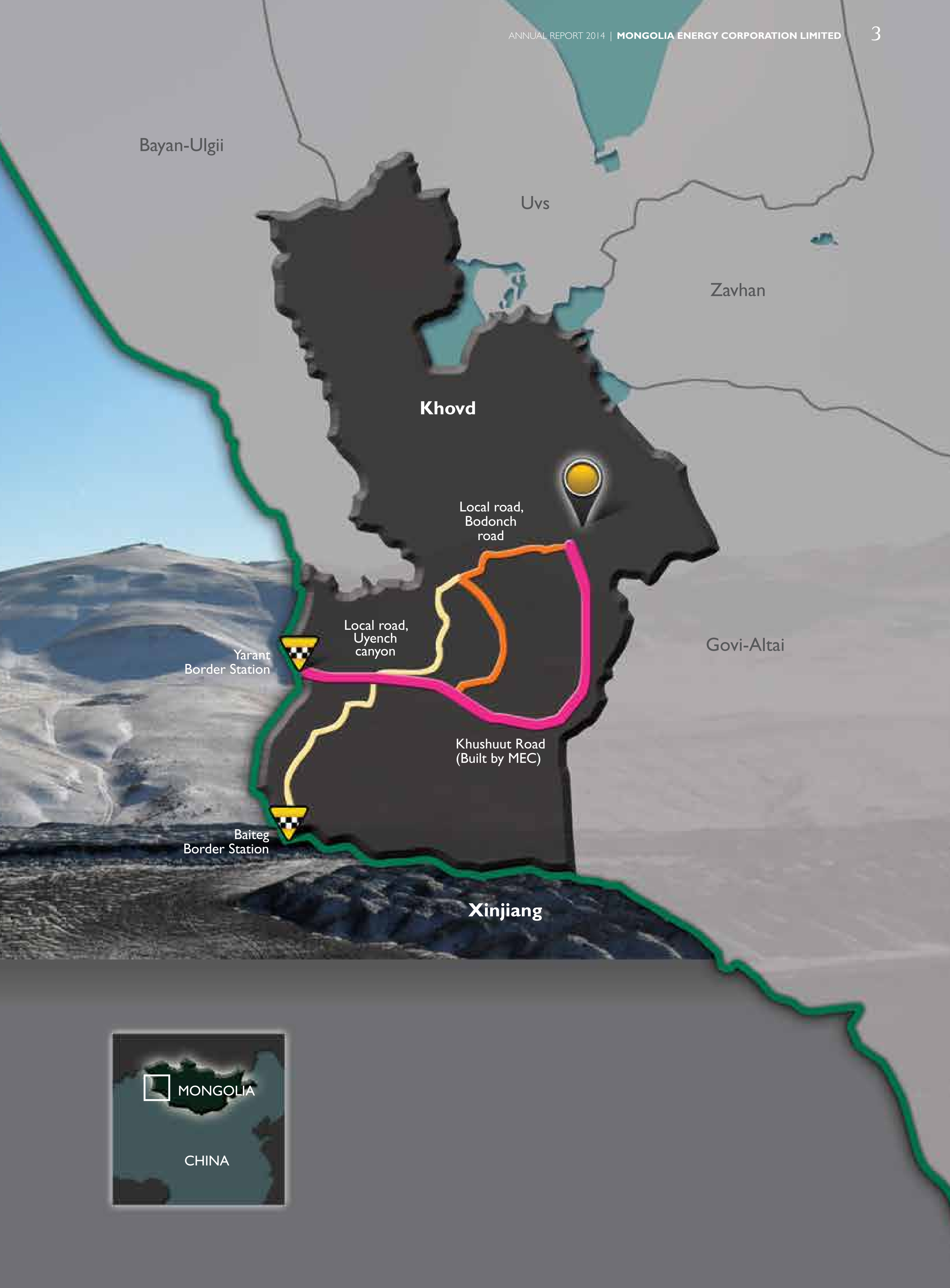
Country boundary

Local road, Bodonch road

Province boundary

Khushuut Road (Built by MEC)

Lake


Bayan-Ulgii
Uvs
Zavhan
Khovd
Local road, Bodonch road
Local road, Uyench canyon
Yarant Border Station
Govi-Altai
Khushuut Road (Built by MEC)
Baiteg Border Station
Xinjiang
MONGOLIA
CHINA

Chairman's Statement

Dear Shareholders,

During the 2013-14 Financial Year, we continued to be in commercial coal production halt. There were plenty of factors affecting us within this period including the global economic downturn which impacted the coking coal price in China. Despite these circumstances, I am pleased to report to you that substantial works had been done by us during the Financial Year, all aiming to resume our commercial coal production by the fourth quarter this year. Additionally, the political climate in Mongolia has changed favorably; the Mongolian government has been rolling out attractive investment policies to the mining sector, of which I will further explain below.

Our key objectives during this period were to increase the quality of our products and reduce the production costs by building the dry processing plant at the Khushuut Mine Site and the washing plant in Xinjiang. The construction of the dry processing plant has been completed and is currently under test run. The installation of the washing plant in Xinjiang is targeted to complete this early summer, and test runs are scheduled to commence immediately following that. These infrastructures will complement our coal production process and enhance our coal quality as when we resume commercial coal production in the latter half of this year.

Apart from the infrastructures, we have successfully appointed our overburden removal contractor. The mobilization of equipment has been completed and the workers have already arrived on-site; the overburden removal works will soon take place. Along with the overburden removal contractor, we are also looking for a professional coal extraction contractor, and the potential contractors have been identified.

In order to ensure a stable operating environment, we have gained the support from the local government for the development of our Khushuut Coking Coal Project by entering into a co-operation agreement. In addition, our stability is further enhanced by the removal of our Khushuut Coal Mine from the list of potential Strategic Deposits. These are all encouraging factors for our continued and stable developments in Mongolia.

Seeing the importance of the mining sector to the Mongolian economy, the Mongolian government has made a number of amendments to its laws and regulations in order to regain the confidence of foreign investors. In order to enhance the economic growth by increasing export income and stabilizing foreign currency rate, the Mongolian government adopted Resolution No.25 in January this year regarding "Plan on Measures for Increasing of Export Income". The said Plan covers actions to be implemented in hopes of increasing and boosting minerals and coal export. The prominent projects in Mongolia that are among the Plans include Oyu Tolgoi Mine (OT), Tavan Tolgoi Mine (TT), and our Khushuut Project. You may refer to the Management Discussion and Analysis section for information of favourable Mongolian rules and policies adopted for boosting the mining sector of Mongolia.

Turning to the market side, the principal market for our coal products is the People's Republic of China. China demonstrated slower economic growth in the past few years, principally being affected by the world's economy as a whole, as well as its policy to shift the economic growth driver from fixed asset investment to consumption and services. Therefore, the price and demand of coking coal have been experiencing downward trends.

According to the China customs data, China imported nearly 330 million tonnes of coal last year, hitting a new record high. This was mainly driven by the difference in prices between the seaborne coal and domestic coal, which attracted more Chinese buyers to purchase coal products from outside of China. In respect of coking coal, China imported a total of 75.4 million tonnes of coking coal in 2013. 15.38 million tonnes of coking coal were imported from Mongolia alone, accounting for 20.4% of China's total coking coal imports in 2013. However, in terms of quantity, China's coking coal imports from Mongolia dropped, comparing with that in 2012. As we foresee that the sluggish demand of coking coal will continue to weigh on the market, the price will continue to be adjusted downward, though slightly, and become stable gradually this year.

In long run, with the benefit of close proximity and abundance in coking coal resources, China will remain the largest coking coal market for Mongolia. We will strive to produce good quality coking coal products and gain market share in the coming period.

Our project ran into all manner of challenges since the beginning, and we have overcome them step by step. The persistent and tireless efforts of our colleagues and your invaluable support are the most important drivers leading us to success. We sincerely appreciate and look forward to your continuous support.

Lo Lin Shing, Simon
Chairman

27 June 2014

Management Discussion and Analysis

RESULTS ANALYSIS

Revenue

During the Financial Year, the Group did not undergo any commercial operations. However, it sold 15,300 tonnes (2013: 50,350 tonnes) of raw coal from the inventory stored at Xinjiang, the People's Republic of China (the "**PRC**") and generated revenue of approximately HK$0.5 million (2013: HK$11.8 million).

Cost of Sales and Other Expenses

The cost of sales during the Financial Year was HK$4.6 million (2013: HK$261.9 million). It included write down of inventory to net realizable value of HK$4.1 million (2013: HK$220.9 million). It was exceptionally high in 2013 due to the mining activities during last financial period failed to produce raw coal at optimum capacity.

The commercial coal production of Khushuut Coal Mine came to a halt since October 2012, thus all related expenses incurred in Khushuut Coal Mine of HK$55.7 million (2013: HK$31.9 million) for the whole Financial Year were grouped under other expenses.

Administrative Expenses

The administrative expenses included the following major items:

(a) Staff costs and benefits of HK$69.8 million (2013: HK$52.4 million). A one-off equity-settled share-based payments of HK$13.4 million (2013: HK$ Nil) relating to share options granted during the Financial Year were included in the staff costs and benefits;

(b) Legal and professional fees of HK$22.3 million (2013: HK$23.2 million); and

(c) Rental and utilities expenses of HK$21.8 million (2013: HK$30.2 million).

Fair Value Gain on Derivative Component of Convertible Notes

At the end of the Financial Year, the Company had the following outstanding convertible notes: (i) Principal value of HK$2 billion 3-year 3% coupon convertible note and (ii) Principal value of HK$400 million 5% convertible notes. The derivative components of these convertible notes were initially recorded at fair value at their respective issue dates and remeasured at the end of each reporting period. The resulting gain in fair values of HK$42.4 million (2013: HK$303.0 million) was then recognized through the consolidated statement of profit or loss.

Impairment Loss Recognised on Khushuut Mine Related Assets (the "Mine Assets")

An impairment loss of HK$253.4 million (2013: HK$3.1 billion) was made in the Financial Year in respect of the Mine Assets. This impairment loss was non-cash in nature and would not affect the Group's liquidity, cash flows or debt covenants, nor have any impact on future operations.

An impairment analysis with the assistance of an independent valuer was undertaken and an updated mine life projection was prepared. The mine life projection reflected the prevailing economic situations, market conditions, and best estimations on future development of the Khushuut Coal Mine made by the management.

The valuation has been prepared on a basis consistent in all material respects of the accounting policies presently adopted by the Company. The Independent Valuer adopted a value in use calculation to obtain the fair value of the Mine Assets as at 31 March 2014. The value in use calculation focuses on the economic benefits due to the income producing capability of the Mine Assets. The underlying theory of this approach is that the fair value of the Mine Assets can be measured by the present worth of the economic benefits to be received over the useful life of the Mine Assets. Based on this value in use model, the income-based approach estimates the future economic benefits and discounts them to their present values using a discounted rate appropriate for the risks associated with realizing those benefits. The factors taken into account in arriving the future economic benefits, include, among others, (a) estimated selling prices and quantities of future coal products; (b) existing and projected cost of revenue such as mining costs (including but not limited to overburden removal costs, coal extraction costs, blasting costs, labour costs, and fuel costs etc.), transportation costs etc.; (c) existing and projected selling and administrative expenses; and (d) projected capital expenditures in association with the development of the Khushuut Coal Mine. The major changes from last year's valuation model were:

(i) The discount rate was 18.5% (2013: 17.6%). The upward adjustment of the discount rate was due to the update of the latest market data in arriving at the appropriate discount rate; and

(ii) Estimated mining costs were revised upward based on the latest information available.

The Company believes that the estimates/assumptions applied in the assessment of recoverable amount by the Independent Valuer are reasonable. However, these estimates/assumptions are subject to significant uncertainties and judgments. The Company has made its best estimates of all relevant factors to be included in the value in use model based on current conditions. However, it is possible that the underlying estimates/assumptions can be changed significantly and further impairment charges/reversal of changes may be required in future period.

BUSINESS REVIEW

Coal Sales and Operation

During the Financial Year, we sold 15,300 tonnes of raw coking coal to our customers in Xinjiang, PRC. The low sales volume was due to our coal production halt.

Coal Processing Infrastructures

In respect of our operation technical issues, as disclosed previously, we need to improve our coal screening capability on-site to enhance our coal quality. For this purpose, we are installing a dry coal processing system on the Khushuut Coal Mine for on-site coal screening. In collaboration with this system, we are also building a coal washing plant in Xinjiang.

The building of the dry processing plant has been completed which is currently under test run. An application to the State Specialized Inspection Agency (SSIA) of Mongolia for commissioning approval of the dry processing plant was made and has been approved recently.

In order to prepare for the coming operation of the dry processing plant, we had sent our technical staff to the PRC and undergone training during the Financial Year so as to get themselves familiar with the actual operating and maintenance techniques of the dry processing plant. We have recruited over 20 operators for the dry processing plant.

The installation of the washing plant in Xinjiang is targeted to complete this early summer, and test runs are scheduled to commence immediately following that.

Mining Contractor

After rounds of talks and negotiations, we finally entered into a mining services agreement for overburden removal (the "**Agreement**") with a reputable contractor in Mongolia, Monnis Mining Equipment LLC ("**Monnis**" or the "**Contractor**").

The term of the Agreement is for a period of thirty six months. The Contractor is principally required to provide blasting, removal of topsoil and overburden, loading and haulage services on the Mine Site. It shall provide manpower and materials, machineries, camps, equipment, facilities, and fuel supply; construct blasting supplies magazine on the Mine Site; provide ancillary materials and resources for the provision of the overburden removal services.

The service fee of the Contractor is based on the volume of the engineering works in bank cubic meters completed by the Contractor (drilling, blasting, loading, and hauling works). The overburden removal quantity could be adjusted by MoEnCo in response to the market conditions.

Apart from Monnis, MoEnCo is seeking another contractor to perform coal extraction services.

New Customs Bonded Yard On-site

We used to have a customs bonded yard on the Khushuut Mine Site. It was staffed by the Mongolian customs officers for issuing export documents on-site for our coal products shipping to the PRC.

As we have set up the dry processing plant at the Khushuut Mine Site, a new customs bonded yard in the proximity of the dry processing plant would facilitate export of our coking coal products. For this purpose we have built a new customs bonded yard nearby the dry processing plant. In March, the General Customs Office of Mongolia issued a permit to us for use of the new customs bonded yard. This will enhance our coming coal export process when our production resumes.

Customers and Sales

As a result of our temporary halt of commercial coal production and the continued softening of the coking coal market conditions in the PRC, we did not actively market for new customers during the Financial Year.

Co-operation Agreement with the Khovd Province

Seeing the coming resumption of commercial coal production this year, a stable environment with the support of the local government and community is very important. During the Financial Year, MoEnCo, an indirect wholly owned subsidiary, and the Khovd provincial government came to an agreement of co-operation (the "**Co-operation Agreement**"). The term of the Co-operation Agreement is three years and will expire in December 2016.

The Co-operation Agreement is necessary in order to obtain support from the local community for ensuring a stable operating environment of our Khushuut Coal Mine. In return, MoEnCo will support its local and economic development.

To support the local economic and social development, MoEnCo will, among others, allocate an agreed amount to the Khovd Khushuut Development Fund every year. The donations from this Fund will be dedicated to development projects and activities agreed by the parties under their supervision. Other key points are that MoEnCo will aim to recruit 70% of the total workforce for the Khushuut Project from Khovd Province, and to engage transportation companies registered in Khovd Province for coal transportation in preference to others. MoEnCo is also required to implement the Khovd village relocation plan upon approval by the Civil Representative Khural of the Province and the parties concerned.

To support our sustainable mining development in the Khushuut Project, the Khovd Province shall ensure the conditions of no-disturbance and eliminate any illegal stoppages, provide support on issuance of necessary permits required for the Khushuut Coal Mine development, organize trainings for unemployed local citizens in collaboration with MoEnCo, and provide other necessary supports.

Strategic Deposits

Under the Minerals Act, the Parliament of Mongolia may declare a deposit as being strategically importance ("**Strategic Deposit**") upon the submission of a proposal by the government of Mongolia. The government of Mongolia has the power to submit a proposal to the Parliament to declare deposits as being strategically importance.

On 30 May 2013, the Cabinet (government) of Mongolia made a decision to expand the list of Strategic Deposits under Resolution No. 27 which included our Khushuut Coal Mine and submitted the draft resolution to the Parliament of Mongolia for approval.

According to the recent enquiry with our Mongolian legal adviser and its advice, we are pleased to note that our Khushuut Coal Mine has been removed from the proposed list of Strategic Deposits for consideration by the Mongolian Parliament.

Licences and Exploration Activities

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. A holder of an exploration/mining licence is also required to pay annual licence fee to maintain its validity.

Such obligations require a holder of licence to incur substantial administrative costs in organizing exploration and mining activities, and filing of the requisite planning and reports to the Mongolian authorities. 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.

Apart from the Khushuut mining licences (operating licences of our Khushuut Coking Coal Project), we also have a number of other mining and exploration licences in Mongolia. These licences consist of eight exploration licences and three mining licences, and they are/were non-Khushuut related licences. After years of exploration and studies, these licences do not demonstrate economic coal/metal resources to justify further development and maintenance. Pursuant to our prudent expenditure policy, and at the recommendation of our geologist, we have resolved to return these non-potential licences to the Mongolian government gradually this year.

Up to the date of this Report, seven licences have been returned to the Mongolian government. The giving up or return of these licences will not have any material impact on the Group's financial condition and results of operations.

In addition, we have planned to dispose of our deposit in Bayan-Ugii which, according to our preliminary exploration, contains iron resources. The Company has engaged an independent valuer to conduct a valuation on the recoverable amount of the deposit. In view of the market condition, we anticipate an impairment of value may arrive and will be reflected in next financial year. However, such impairment is non-cash in nature and will not affect our liquidity, cash flows nor have any impact on future operations.

Please refer to the table under the paragraph of "Exploration and Mining Concessions of the Group" for further details of our licences.

Legal and Political Aspects

As previously reported, the Mongolian government adopted a number of legislation including the Law of Mongolia on the Regulation of Foreign Investment in Business Entities of Strategic Importance (the "**Foreign Investment Law**") and 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**") which have the effect of shaking investors' confidence on investing in Mongolia.

The Foreign Investment Law restricted the sale or transfer of major stakes in strategic sectors such as mining and finance industries unless prior approval from the Mongolian Parliament or government was obtained. The MPL prohibited mining and minerals exploration activities to be carried out in headwater areas, protected zones for water reserves and forest land, and the licences overlapping these areas may have the possibility of reducing size or being revoked by the Mongolian government.

In order to restore the investors' confidence and provide incentives to invest in Mongolia, a special parliament session took place in September 2013 to discuss the reform of various legislation that have the effects of curbing the Mongolian economy. Such discussions included, among others, the replacement of the Foreign Investment Law which restricted the transfer of interest in the strategic sectors in Mongolia and some of the tax-favoured policies.

In January 2014, the Mongolian Parliament approved the State Policy on Minerals Sector. This Policy focuses on ensuring the principal interests of Mongolia by developing a transparent and responsible mining sector which relies upon the private sector, and aims to develop diversified and balanced economic structure in the short and medium term. Regarding the coal industry, the Policy emphasizes that the State shall provide support on the development of coal processing, coking and chemical plants; construction of power plants based on coal deposits; production of smokeless, liquid fuel and gas from thermal coal, and production of liquid fuels from shale oil.

Details of some of the changes are set out below:

Investment Act

The Parliament of Mongolia enacted the Investment Act of Mongolia on 3 October 2013 (the "**Investment Act**") and came into force on 1 November 2013.

The Investment Act and its corresponding Implementing Regulation were passed as a way to re-attract foreign investments following immense decrease in foreign direct investments as a result of the Foreign Investment Law enacted on 17 May 2012. The significance of this new law is that it now covers domestic investors with some incentives to invest as opposed to the previous Foreign Investment Law which did not offer investment motivations to national companies.

The Investment Act replaces the Law of Mongolia on Foreign Investment, enacted on 10 May 1993 and the Foreign Investment Law.

The essentials of the Investment Act include, among others:

(a) Under the Investment Act, mining; banking and finance; and media and telecommunications still remain as the business sectors of strategic importance;

(b) Private investors are not required to obtain the Cabinet or any other governmental approval in order to acquire Mongolian companies operating in strategic sectors. Therefore, private investors can freely transfer their investments in the mining sector without approval of the government;

(c) However, Foreign State Owned Enterprises ("**FSOE**") are required to obtain approval from the state central administrative authority handling investments (currently the Ministry of Economic Development) should such FSOE desire to acquire 33% or more equity in a company operating in any of the strategic sectors. A FSOE is a legal entity in which a government of a foreign country owns 50% or more of the issued shares of such entity;

(d) If a company invests in building construction materials, oil and agricultural processing and export products; plants to use nano, bio, innovation technologies; power plants and railways, then it shall become eligible for waiver of value added tax (VAT) and customs duties during the construction period; and

(e) Companies are also entitled to tax stabilization for certain years if the amount of their investment meets the required amount between 30 to 100 billion Mongolian Tugrik.

Law on Border Checkpoints

The new law came into effect on 1 April 2014. According to the Law on Border Checkpoints, some activities and functions of the Border Ports Division of the General Authority for Border Protection are now to be administrated by the Citizenship and Migration General Authority of Mongolia. This law aims to accelerate the border crossing process at the Mongolian border checkpoints, the process of registration of foreigners, international organizations, and foreign invested enterprises operating in Mongolia. A comprehensive information database is created to monitor and control the movement of Mongolian nationals and foreign citizens. Online application services for visa extension and residence permits are also introduced.

Government Resolution No. 25 (Adoption of the Plan on the measures of increasing export income)

To enhance the economic growth in a way of increasing export income and stabilizing foreign currency rate, the government of Mongolia has approved the Resolution 'The Plan on the measures of increasing export income'. Actuation of coal export from the Khushuut Coal Mine is one of the measures to be taken to increase export income. Main Ministries, including Ministry of Mine, Ministry of Economic Development, and Ministry of Labour are assigned to take all necessary measures to implement the Resolution.

Regulations relating to Royalty

A coal exporter was required to pay royalty based on each tonne of coal exported on the market rate.

The government of Mongolia changed the royalty regime effective 1 April 2014. Under the new flexible tariff royalty regime, the royalty per tonne for coal export sales is calculated based on the actual contracted sales price per tonne, whereby the contracted sales price includes the costs of transporting the coal to the Mongolia-China border. If transportation costs are not included in the contracted sales price between a buyer and a seller, the following costs will be required to be included in the contracted sales price for the purpose of calculating the royalty per tonne: transportation costs and costs associated with transportation such as customs documentation fees, insurance, loading and unloading costs.

Khushuut Coal Resources

We have not conducted any coal resources update during the Financial Year. Our JORC in-place resources remain the same, i.e. approximately 141.5 million tonnes (44.5 million tonnes of measured resources and 97.0 million tonnes of indicated resources).

	In-Place Tonnes ('000)		
Resources Estimate	**Coal**	**Parting**	**Seam**
Up to 31 March 2014	141,456	Not estimated	Not Estimated

As set out in the technical report by John T. Boyd Company, 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.

Disputes with contractors

With Leighton

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

Subsequent to the issue of the first writ, Leighton took out a summary application in April 2013 by asking the Court to decide in its favour that the Company Guarantee given pursuant to the mining agreement was an on-demand guarantee and we should pay Leighton notwithstanding any underlying dispute between MoEnCo and Leighton. The hearing was heard on 10 July 2013 and the Court ruled in our favour that the Company Guarantee is not an "on-demand" guarantee. Our liability to pay will arise only when the Court has decided that MoEnCo should pay after the full trial on the dispute.

In September 2013, we received the mediation notices from Leighton. According to the mediation notices, Leighton proposed a stay of proceedings pending the mediation process. Up to the date of this Report, the mediation has yet to proceed and currently, there is no development.

With a Xinjiang contractor

MoEnCo used to have a Chinese contractor (SJ) in Xinjiang, PRC, to provide coal washing and blending services for MoEnCo in the form of co-operation for three years. The contract was signed by MoEnCo and SJ in June 2012 and the purpose was to improve the unsatisfactory coking coal delivered to and sat in Xinjiang by blending our coal with SJ's. The blended products would then subsequently be washed for sale in Xinjiang.

Due to the fact that our operation in Khushuut had been halted, the co-operation came to a pause. SJ had lodged an arbitration application against MoEnCo and the Company for a claim of approximately RMB32 million (approximately HK$40.0 million), being refund of the payment made in advance on behalf of MoEnCo (mainly tax, levy, and other costs incurred in the PRC) and loss of profit, etc.

We had instructed PRC lawyers to handle the case. Our PRC lawyers were of the preliminary view that the claim of loss of profit by SJ was unmeritorious, and the possible disputable claim would be the payment in advance in the amount of approximately RMB11 million (approximately HK$13.7 million) which had been provided for in our consolidated financial statements.

Others

Disposal of investment property

During the Financial Year, the Company entered into agreements with an independent third party purchaser for the disposal of a property located at Beijing at a consideration of RMB100 million. The proceeds of approximately HK$128.5 million from the disposal of the property had been applied towards repayment of loans and for use as general working capital of the Group.

Expiry of the convertible note issued to Golden Infinity Co., Ltd.

The convertible note issued to Golden Infinity Co., Ltd on 6 September 2010 in the principal amount of HK$300 million was expired on 6 September 2013. Golden Infinity Co., Ltd has agreed that the principal and interest under the said convertible note were not required to be repaid on or before 13 May 2014, which has been subsequently extended to 12 August 2014.

Expiry of the convertible notes issued to the Sculptor Finance Group

The convertible notes issued to Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, and Sculptor Finance (SI) Ireland Limited on 12 November 2010 in the aggregate principal amount of HK$466.8 million were expired on 12 November 2013.

The holders of the said convertible notes have agreed to grant a six-month moratorium up to 12 May 2014 on repayment of principals and interests due under the said convertible notes, which has been subsequently extended to 12 August 2014.

Expiry of the convertible note issued to Chow Tai Fook Nominee Limited

The convertible note issued to Chow Tai Fook Nominee Limited on 12 May 2011 in the aggregate principal amount of HK$2 billion was expired on 16 June 2014.

The holder of the said convertible note has agreed to grant a moratorium up to 12 August 2014 on repayment of principal and interest due under the said convertible note.

The Company will exercise its endeavour to reach an acceptable debt restructuring plan with all the noteholders during the moratorium period.

FINANCIAL REVIEW

1. Liquidity and financial resources

During the Financial Year, the Group's capital expenditures and working capital were funded by short term loans granted by Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), chairman of the Company and the sale proceeds from the disposal of an investment property in Beijing, PRC.

The borrowings of the Group as at 31 March 2014 comprised convertible notes, advances from Mr. Lo and other loans amounting to HK$4,040.7 million (2013: HK$3,469.5 million). The effective interest rates of these borrowings were in the range from 3% to 18.22%. Of the total borrowings, all of them were repayable within one year (2013: 36.4% of total borrowings were repayable within one year and 63.6% of total borrowings were repayable within two to three years).

As at 31 March 2014, the cash and bank balances were HK$48.6 million (2013: HK$51.6 million) and the liquidity ratio was 0.03 (2013: 0.07).

As at 31 March 2014, the Group's current liabilities exceeded its current assets by approximately HK$4,287.7 million (2013: HK$1,376.5 million). The worsening of the short term liquidity position was due to several reasons, namely, the commercial production came to a complete halt during the Financial Year, all of the outstanding borrowings became repayable within a year, and the capital expenditures spent on the construction of coal screening infrastructures at the Khushuut Coal Mine and in Xinjiang, PRC.

The Group will use its best endeavour to address the liquidity issues, including but not limited to (i) securing financial support from Mr. Lo; (ii) proposing an acceptable debt restructuring plan with all holders of existing notes or other loans; and (iii) speeding up the resumption of commercial production as soon as practicable. 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 and the reasons are fully explained in Note 1 to the consolidated financial statements.

2. Investment in Listed Securities

As at 31 March 2014, the Group's held-for-trading investments comprised of equity securities listed in Hong Kong with fair value of HK$56.3 million (2013: HK$26.5 million).

3. Charge on Group's Assets

There was no charge on the Group's assets as at 31 March 2014 (2013: Nil).

4. Gearing Ratio

As at 31 March 2014, the gearing ratio of the Group was 0.50 (2013: 0.42) which was calculated based on the Group's total borrowings to total assets.

5. Foreign Exchange

The Group mainly operates in Mongolia, Hong Kong and Mainland China. The Group's assets and liabilities are mainly 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.

6. Contingent Liabilities

The details of the Group's contingent liabilities as at 31 March 2014 are disclosed in Note 38 to the consolidated financial statements.

7. Major Disposal

During the Financial Year, the Company disposed of an investment property in PRC to an independent third party at the consideration of approximately HK$128.5 million.

RISK FACTORS FACING US

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. Possible risk factors which may be facing by the Group 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 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

The 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 two successive additional periods of three years. 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.

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.

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.

The Khushuut Coal Mine had been proposed to be included into the list of Strategic Deposits for the consideration of the Mongolia Parliament. According to the recent enquiry with our Mongolian legal adviser and its advice, our Khushuut Coal Mine has been removed from the proposed list of Strategic Deposits for consideration by the Mongolian Parliament. However, there is no assurance that our Mine will not be considered again 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 requirement set by the Minerals Law; or

(v) the state central administrative agency in charge of the environment (currently Ministry of Environment and Green Development of Mongolia) has decided based on a report of the local administrative bodies that the licence holder 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 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 nationalisation, requisition or confiscation due to change of laws or political conditions.

Environmental protection policies

Mining and exploration business is subject to 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 laws, make amendments to them;

(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. Parliament members elect a chairman and vice chairman who each serves a four-year term. 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

Although we were in commercial production halt during the Financial Year, our pace had not been slowing down for the Khushuut Project. Instead, we worked tirelessly during this period with an aim of returning to the production track by the end of this year.

A number of accomplishments had been achieved for this Financial Year, including completion of the coal processing infrastructure constructions on-site and in Xinjiang; entering into the co-operation agreement with the Khovd Province, and building a new customs bonded yard in the vicinity of the dry processing plant. Subsequent to the Financial Year, our progress continues by successfully appointed a new partner for overburden removal in our Khushuut Coal Mine. The overburden removal contractor has completed mobilization of equipment and the workers have already arrived on-site to get ready for the overburden removal works. In the meantime, we are looking for the coal extraction contractor to provide coal extraction services for us.

On the other hand, the political climate in Mongolia continues to show improvement. Seeing the importance of the mining sector to the Mongolian economy, the Mongolian government has rolled out a number of policies and new rules and regulations, all aiming to restore investors' confidence to invest in Mongolia. All these have positive impacts on our upcoming resumption of commercial coal production.

Our principal market is in the PRC. Although being affected by the global economy, we are, however, optimistic that the policies of the PRC will continue to promote the Chinese economy and gradually support the recovery of the coking coal market. MEC is in a strong position to face new challenges and grab new opportunities.

Upon resumption of commercial coal production, we will pay heavy emphasis on the quality of our products and customers' satisfaction. As such, we will exercise stringent controls on the whole production process. We anticipate the initial output will be small and there will be a period of net cash outflow before achieving optimal production scale. Nevertheless, we will work hard to achieve the greatest benefits and values for our shareholders.

We are grateful for the support of our convertible noteholders to grant us the moratorium on repayment of the outstanding principals and interests under the expired convertible notes. We will exercise our best endeavour to reach a mutually acceptable debt restructuring plan with all the noteholders during the moratorium period.

Hence, we maintain a positive view on our long term prospects despite the short to medium term challenges.

EXPLORATION AND MINING CONCESSIONS OF THE GROUP

The information of the Group's exploration and mining concession areas in Western Mongolia for coal, ferrous, and non-ferrous resources is as follows:

Licence (licence no.)	**Location** (resources)	**Mine area (approximate)** (hectare)$^{\Delta}$	**Date of issuance**	**Licence valid period**$^{\#}$	**Development status/ Remarks**
	(coal resources)				
1414A 1640A 4322A✧ 6525A 11887A 11888A✧ 11889A 11890A	Khushuut, Khovd, Western Mongolia	2,655	30 December 1998 25 May 1999 23 April 2002 7 November 2003 14 August 2006 14 August 2006 14 August 2006 14 August 2006	70 years for mining licences (A)▲▲	Approximate 141 million tonnes of in-place resources according to JORC standards are reported Licence nos. 11889A and 11890A will be returned to the Mongolian government in due course
	(coal, ferrous, and non-ferrous resources)				
15289A✧	Gants Mod, Western Mongolia	39	23 November 2009	70 years for mining licences (A)	
2913A✧	Olon Bulag, Western Mongolia	38	26 January 2001	70 years for mining licence (A)	This licence will be returned to the Mongolian government in due course
14349X✧	Bayan-Ulgii, Western Mongolia	2,986	24 October 2008	9 years for exploration licence (X)▲	To seek potential buyer
Total Hectares		**5,718**			

Δ *1 hectare = 10,000 square metres*

\# *the exploration licences are for three years with two further extensions of three years. The mining licences are for thirty years with two further extensions of twenty years.*

▲ *(X) stands for exploration licence*

▲▲ *(A) stands for mining licence*

✧ *licences are overlapping areas described under the MPL.*

Note: During the Financial Year and subsequently thereafter, the Company has returned licence nos. 11515X, 11628X, 11724X, 17277X, 11719X, 12126X, and 14426X to the Mongolian government. Licence no. 12315X has been revoked.

Sustainability Report

Sustainable development is about the development that meets the needs of the present while contributing to the future generations. MEC recognizes the importance to create value and make contribution to the society, economy, and environment associated with our mining activities. It is also vital for us to understand our stakeholders' interests and expectations in order to maximize mutual benefits of all parties. We care for the health and well-being of our employees and our work environment; therefore, we spend significant efforts on maintaining the highest standards of health, safety and environmental management.

OUR VALUES: TO CARE

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

TRANSPARENCY

We believe in prompt and frank disclosure and availability of all relative information to our partners for collaboration. We believe in cooperation and collective decision-making with relevant stakeholders.

OPPORTUNITY

MEC intends to seek the best potential outcome in each situation to create a better future for our Company and all our stakeholders.

COMMUNITY

Our goal is to create a sense of unity through shared common goals and interests, not just with our shareholders, but also with our employees and local communities.

ACTION

MEC will do what is necessary to achieve our goals without compromising any of our core values.

RESPONSIBILITY

We abide by our Company's moral obligations and the regulations of our host countries and will always be accountable for our actions.

EDUCATION

We take pride in sharing our values and knowledge with employees, local communities, and stakeholders, and believe there is much we can learn from each other.

GOVERNANCE

MEC believes that good governance principles and practices are essential keys for every business. Apart from complying with all applicable laws and regulations, to ensure our company constantly conducting the business in a socially responsible and ethical manner, all our Company management and employees must abide by the Corporate Governance Practices Manual which includes the Company policies, the Code, the Model Code, and also the Employees' Guidelines. We will review the Manual periodically so as to assure that high standard of conducts and ethics are applied.

TRANSPARENCY AND TIMELY DISCLOSURE

MEC remains committed to maintain its high corporate transparency through timely disclosure of financial results, company updates, corporate announcements, and business developments in accordance with all relevant legislation and regulations. The Company is keen on sustaining a close relationship with its shareholders and the financial community. Latest news and developments of the Company are disclosed in an accurate and timely manner through public announcements which are available on the MEC's corporate website at www.mongolia-energy.com and the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk.

HEALTH AND SAFETY

Responsible health and safety management is one of the pillars of MEC's sustainable business strategy and a vital part of our day to day operations. All employees, contractors, and sub-contractors are obligated to minimize risk through engineering controls and adopt safe work practices when performing all activities associated with MEC. In accordance with our integrated Health and Safety Policy, MEC shall endeavour to fulfill its commitment by:

- complying with applicable host-county legislation and regulations, and exceeding those requirements where necessary, in order to maintain a healthy and safe working environment;
- identifying, assessing, and managing the health and safety risks of our activities in all planning and operational decisions based on appropriate and systematic risk assessment processes;
- establishing management systems and programs relevant to our health and safety risks to eliminate workplace fatalities, injuries, and diseases amongst our employees and contractors;

- promoting the participation of our stakeholders in implementing the policy by identifying their competency requirements, communicating regularly in an open manner, and providing trainings and supports relevant to their functions and duties; and

- regularly assessing our performance through evaluating our business processes and practices, maintaining health and safety statistics, and monitoring the working environment.

Our principal operating subsidiary, MoEnCo LLC ("**MoEnCo**"), 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 so as to mitigate risk of injury. The procedures are developed based on requirements of the Minerals Law of Mongolia, the Environment Protection Law, the Environmental Impact Assessment Law, the Labour Law, and the Mongolian National Standards. International best practice aligned with the Australian and New Zealand Standards is adopted when a relevant law does not exist. The Company also adopts lagging and leading indicators to measure its health and safety performance on a monthly basis in order to give us a clear picture of the overall effectiveness of our safety management. Daily and weekly workplace inspections are conducted by supervisory staff and safety officers to identify potential workplace hazards, assess safety risks, and take immediate actions to correct any activity deviated with the policies and procedures. During the Financial Year, no occupational illness was recorded while ten minor injury cases and two vehicle-related incidents were reported. With the resumption of our operation at the Khushuut Mine Site, we will continue to closely monitor the implementation of our safety measures with an aim to foster a safe working environment for our employees.

Robust site health plan and occupational health program have been implemented to build awareness and knowledge of disease and hazard prevention. All employees are subject to a pre-employment medical examination and subsequent annual medical checkup to ensure that no health issues and occupational diseases were contracted as a result of operational activities in the past twelve months. We have a 24/7 fully operational medical service centre with a medical team which includes national doctors and nurses working on-site to provide primary health care, medical emergency response, stabilization, treatment, and first aid training to the Company's employees. Moreover, our medical team also provides medical services and necessary first aid assistance to the local villagers, and responds to village vehicle accidents within a radius of thirty kilometers.

A comprehensive training program covering various safety and specialist trainings has been carried out during the Financial Year. Safety trainings were provided internally by our qualified safety officers. Competency-based trainings were outsourced to International Technical College of Mongolia and international accreditations were issued to the staff on completion of the required trainings. Staff fire safety training has been conducted periodically for the on-site staff to ensure they are adequately trained on actions to be taken in the event of fire. Apart from learning the theory of fire and practising emergency evacuation procedures, we place a strong emphasis on practical trainings involving use of fire hose reels, basic fire fighting skills, and realistic fire simulation to develop a depth of confidence in responding to a small fire.

Due to our operations, villagers and herders living in the vicinity of the Khushuut Mine Site may have rising health and safety concerns. An agreement with the local government to help relocate these villagers to other locations away from our operational zone is already in place. However, since the relocation action plan is in the process of being finalized, MoEnCo has allocated MNT700 million (approximately HK$3.3 million) during the Financial Year to subsidize the local villagers for dust suppression and various necessities in order to reduce the impacts on their living conditions.

ENVIRONMENT PROTECTION

MEC believes that conducting our activities in an environmentally responsible manner over the long term is integral to sound business management. We aim to minimize environmental harm at every stage of our mine exploration and operation. We are dedicated to promote the efficient use of resources, waste management, pollution prevention, biodiversity conservation, and mine reclamation and closure planning. In accordance with our integrated Environmental Policy, MEC shall endeavour to fulfill its commitment by:

- complying with applicable host-county legislation and regulations, and exceeding those requirements where necessary, in order to maintain a healthy and pollution free environment;
- identifying, assessing, and managing the environmental risks of our activities in all planning and operational decisions based on sound science and appropriate consideration;
- establishing management systems and programs relevant to our environmental risks to prevent, reduce, or mitigate negative impacts at all stages of the exploration of properties and the potential mine life;
- promoting the participation of our stakeholders in implementing the policy by identifying their competency requirements, communicating regularly in an open manner, and providing trainings and supports relevant to their functions and duties; and
- regularly monitoring the surrounding environment in which we operate, and periodically reviewing our performance in improving resource use efficiency, minimizing wastes, preventing pollution, and achieving continuous improvement.

The Company's annual environmental management plan and environmental monitoring program have been approved by the Ministry of Environment and Green Development of Mongolia. We are devoted to minimize and mitigate our impacts on the environment including the air, soil, and water. Therefore, we regularly monitor and measure our activities to ensure they are accepted by national standards. Air and emissions monitoring are conducted every two weeks; soil monitoring and water monitoring are conducted every month and the samples are sent to a certified laboratory for analysis and reporting. Laboratory reports are reviewed by an external certified government body on a quarterly basis to confirm that the soil and water sample results meet the required standards. We have invariably included in the provisions of our contracts requiring our contractors to conform to the standards of excellence on environmental care and not to breach any environment related laws and regulations.

Proper management of waste is essential for long term environmental sustainability. On-site waste must be segregated into different types according to our environmental management plan, which generally solid waste is buried or burnt at the specific rubbish dump area while liquid waste is transported to the sewage treatment plant in Khovd Province. The Company seeks to further improve our waste management system after our commercial coal production resumes. In addition, local people and herders are encouraged to participate in environmental protection activities. Hence, MoEnCo has prepared training materials to educate the locals on waste segregation and general waste management practices. Specific waste disposal areas were identified and built within the local village to keep the environment clean based on a five-year plan.

During the Financial Year, MoEnCo had launched a "Go Green Environmental Clean Up" program in collaboration with the local villagers in Darvi soum. This program aims at assisting the local villagers to clean the garbages regularly and maintaining a clean environment in the local area. Apart from cleaning up the local area by providing loading equipment and helpers, ground holes were prepared for the tree planting project in year 2014. We have also built a fence surrounding the Tuvshin Buur's Spring which provides clean drinking water to citizens in Darvi soum for the purpose of preventing the spring from being polluted by cattle and animals.

SOCIO-ECONOMIC CONTRIBUTION

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. During the Financial Year, MoEnCo loaned over MNT556 million (approximately HK$2.6 million) to the local government for purchasing thermal coal for the local residents of Khovd Province centre and ten other soums to alleviate their hardship in the freezing cold winter. Furthermore, we believe that education of the youths is key to the community development, thus, we continue to donate to the education scholarship to support the underprivileged students to achieve higher levels of tertiary education.

MEC understands the importance to involve our stakeholders, especially the local villagers and the larger community of where we operate. Thus, after numerous meetings and negotiations, MoEnCo came into the Co-operation Agreement with the Khovd government. During the negotiations process, the public had access to the proposals of the Agreement online and could express their opinions towards the co-operation. The transparency of the agreement development process and interactions between the Company, the local government, and the community set a good example for other corporations to follow.

Apart from maintaining a pleasant investment environment in joint efforts for successful implementation of our Khushuut Project, the Co-operation Agreement aims at increasing job opportunities for local citizens and support the small-size companies in Khovd Province. MoEnCo makes efforts to provide employment opportunities to the local citizens and keens to co-operate with the government to arrange job trainings for the unemployed citizens. We target to recruit no less than 70% of our total workforce from Khovd Province. 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 meat, milk, vegetable, water, work uniform, pastry, and petroleum products; our leaser of service buses and light vehicles; and our security service providers.

Besides providing employment and business opportunities, we contribute to the local community by allocating an agreed amount to the Khovd Khushuut Development Fund for the local community every year out of our sales of exported coal. MNT140 million (approximately HK$0.7 million) had been provided to the Khovd Khushuut Development Fund for the use of facilitating the green development of Khovd Province centre in the first half of year 2014.

OUR COMMITMENT

Following by commencement of overburden removal works and resumption of our commercial coal production in the latter half of this year, MEC will constantly monitor the mining plans and implementation of activities to ensure every stage of operations stringently comply with all the applicable laws, legislation, and regulations of the relevant authorities; and conform with the Health and Safety Policy and Environmental Policy of the Company. In the coming years, MEC will continue our efforts in protecting the beautiful environment of Mongolia, helping the development of local areas, and improving the overall standard of living for the people around us in relevant aspects.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

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

i. Under the code provision A.4.1 of the CG Code, 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 that the Company's corporate governance practices are no less exacting than those of the CG Code.

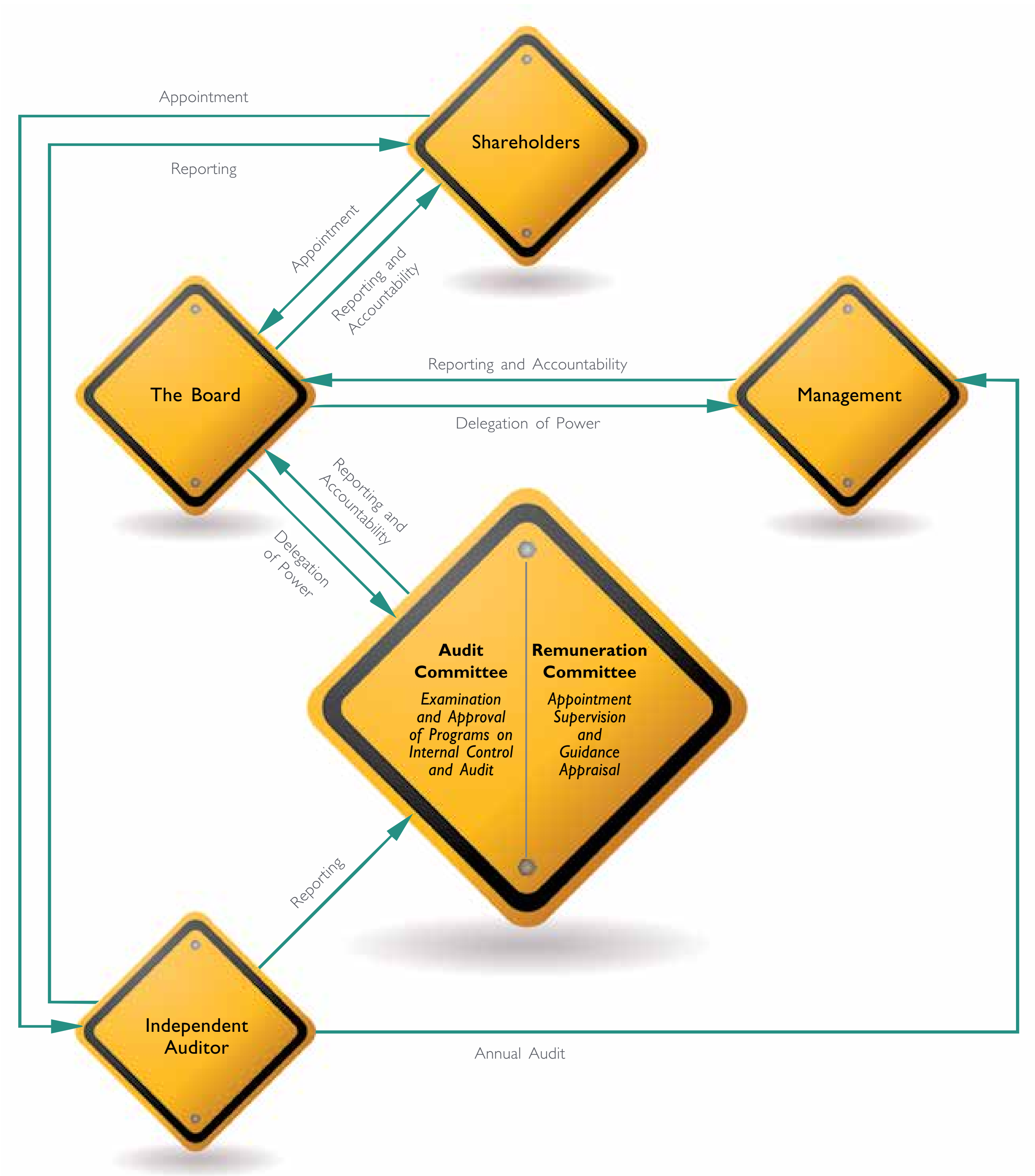
ii. The code provision A.5.1 to A.5.4 of the CG Code require a nomination committee to be set up, chaired by the chairman of the board or an independent non-executive director to review the structure, size and composition of the board at least annually to complement the issuer's corporate strategy.

   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 review these matters and make decisions from time to time. 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. Furthermore, the Director re-election process are participating by the shareholders in the annual general meeting (the "**AGM**") and the rights of shareholders to nominate a Director both ensure a right candidate to be selected to serve the Board effectively.

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 2013 AGM. An Executive Director took the chair of the 2013 AGM and answered questions raised from the shareholders. A member of the Audit and Remuneration Committee of the Company was also present and available to answer shareholders' questions at the 2013 AGM. The AGM provides a channel for communication between the Board and the shareholders. Other than the AGM, the shareholders may communicate with the Company through the contact information 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 (the "**Employees' Guidelines**") on terms no less exacting than the Model Code 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 of 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 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 of the half year results or, if shorter, the period from the end of the relevant quarterly or half year period up to and including the publication date of the half year results, all Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published.

Company Secretary and the Legal and Compliance Department will send reminders prior to the commencement of such period to all 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 Directors have confirmed in writing that they have complied with the required standards set out in the Model Code and the Code throughout the Financial Year.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Promoting good corporate governance and managing enterprise-wide risk are the priorities for the Company. The Company is convinced that corporate governance and Directors and Officers Liability Insurance (the "**D&O Insurance**") complement each other. The Company has arranged the appropriate D&O Insurance coverage on the Directors' and officers' liabilities in respect of legal actions against Directors and senior management arising out of corporate activities. The D&O Insurance will be reviewed annually.

THE BOARD

(a) Board Composition

The Board currently comprises two Executive Directors, one Non-executive Director and three Independent Non-executive Directors overseeing the operation of the Company. The biographical details of each Director are set out on pages 38 to 39. The Company has also posted the Directors' information on its website and the website of the Stock Exchange.

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:

Executive Directors
Mr. Lo Lin Shing, Simon *(Chairman)*
Ms. Yvette Ong *(Managing Director)*
Mr. Liu Zhuo Wei *(Retired on 30 August 2013)*

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

None of the existing Non-executive Directors is appointed for a specific term. None of the members of the Board is related to one another.

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 have the appropriate 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 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.

(b) Role and Function

The Board is responsible for formulating strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving 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 representatives of 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 letter to all Directors setting out the key terms and conditions of their respective appointment.

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 Non-executive Directors, including Independent Non-executive Directors, are not involved in daily management. The Non-executive Directors are helping 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 the financial probity on the part of the Company is maintained in high standard.

The Board is also responsible for performing the following corporate governance functions:

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 Directors and 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 Directors; and

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

For the Financial Year, the Board had:

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

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

iii. reviewed the internal controls of the Group;

iv. reviewed and approved 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 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 judgment.

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

All 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 recognized by registered professional bodies such as The Law Society, Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries etc., are recognized by the Company for this purpose. Directors will also be provided with materials from time to time to keep afresh of the latest legal and regulatory changes to enable them to discharge their duties.

During the Financial Year, all Directors, namely Messrs. Lo Lin Shing, Simon, Yvette Ong, To Hin Tsun, Gerald, Peter Pun *OBE, JP*, Tsui Hing Chuen, William *JP* and Lau Wai Piu, had participated in appropriate continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's businesses or to the Directors' duties and responsibilities.

(c) Chairman, Chief Executive, and Company Secretary

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

The Chairman's responsibility is to provide leadership to the Board and formulate the Group's business strategies. The Chairman is also responsible for ensuring the Board works effectively, in particular, ensuring all 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 still assumes the principal responsibility.

The Company Secretary is an employee of the Company and has served the Company as 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 training under Rule 3.29 of the Listing Rules.

(d) Accountability and Audit

The Directors are responsible for preparing the accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Directors shall also ensure that the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting policies. The Directors are provided with major operations and updates of the Group and financial information on a monthly basis to enable the Directors to assess the performance of the Group in regular intervals.

In preparing the financial statements, the Directors consider that the financial statements of the Group are prepared on a going concern basis and appropriate accounting policies have been consistently applied. The Directors have also made judgments and estimates that are prudent and reasonable in the preparation of the financial statements.

However, the Directors would like to draw shareholders' attention that the Group's current liabilities exceeded its current assets by approximately HK$4,288 million as at 31 March 2014, including advances from a Director, convertible notes and other financial liabilities of which the aggregate carrying amount was approximately HK$4,041 million. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from a substantial shareholder who is also the chairman and a director of the Company, the holders of the convertible notes and the other loan providers.

The Group will use its best endeavour to address the liquidity issues, including but not limited to (i) securing financial support from Mr. Lo; (ii) proposing an acceptable debt restructuring plan with all holders of existing notes or other loans; and (iii) speeding up the resumption of commercial production as soon as practicable. 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 and the reasons are fully explained in Note 1 to the consolidated financial statements. If we are unable the reach an acceptable debt restructuring plan with all our convertible noteholders and loan providers, our financial and operation conditions will be seriously impacted. Please refer to the Independent Auditor's Report on pages 49 to 50 for detailed information.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 49 to 50.

The Board understands its responsibility under the Listing Rules and other applicable regulations to make 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 four voluntary and price sensitive announcements for updating the business progress and developments of the Group.

(e) Internal Control and Risk Management

The Board is responsible for the Group's system of internal control so as to maintain sound and effective internal controls 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 continued updating of the internal control system of the Group in response to the changing business environment and regulatory requirements.

The Board also conducts review of the internal controls of the Group to ensure that the policies and procedures in place are adequate. The Board assesses the effectiveness of the Group's internal control system 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 internal control review of the Group and reported directly to the Audit Committee. The outcomes of the review 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 facilitate and enhance better internal control, the Director of Legal and Compliance will assist in internal control and 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 discharge their duties.

(f) Meetings and Corporate Communication

The Group makes great efforts to enhance the communication with the shareholders and investors. From time to time, the website of the Company (www.mongolia-energy.com) contains updated information of the Group and press releases are posted on our website in a timely manner. The shareholders can also visit the Company's website for updated information of the Group. The shareholders can communicate with the Company or communicate with the Board through the contact information provided on the Company's website and in the general meetings of the Company from time to time.

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 to shareholders from time to time.

During the Financial Year, the Company held one general meeting which was the AGM. In the 2013 AGM, the Directors and the independent auditor of the Company had attended to answer the shareholders' enquiries. Also, separate resolutions for each separate issue had been proposed at the general meeting for voting by the shareholders. For the AGM, the Company had provided the shareholders with at least thirty-five days of notice in advance.

The rights of the shareholders to convene special general meetings of the Company and to make proposals at the general meetings under the applicable Bye-laws of the Company and the Companies Act of Bermuda as amended from time to time have been made available on the Company's website.

The Board conducts meetings on both regular and ad hoc bases from time to time in relation to the business of the Company. During the Financial Year, the Company held four regular Board meetings to consider the final results, interim results, financial and operating performance and one general meeting. The attendance of each Director is listed below:

Directors	**Number of Board Meetings Attended/Held**	**Number of General Meetings Attended/Held**
Executive Directors		
Mr. Lo Lin Shing, Simon	4/4	0/1
Ms. Yvette Ong	4/4	1/1
Mr. Liu Zhuo Wei *(Note)*	0/4	0/1
Non-executive Director		
Mr. To Hin Tsun, Gerald	4/4	0/1
Independent Non-executive Directors		
Mr. Peter Pun *OBE, JP*	4/4	0/1
Mr. Tsui Hing Chuen, William *JP*	4/4	1/1
Mr. Lau Wai Piu	4/4	1/1

Note: Mr. Liu Zhuo Wei retired as an Executive Director after the conclusion of the 2013 AGM held on 30 August 2013.

For regular Board meetings, at least fourteen days notice will be given before such meetings and all the Directors are given an opportunity to include matters in the agenda for the regular Board meetings. The Board papers will usually be sent at least three days before such meetings. The minutes of the Board meetings are kept by under the Company Secretarial Department and are available for inspection by the Directors at any reasonable time. For other Board meetings, prior reasonable notice will be given to the Directors before the meetings.

For every Board meeting, each Director has 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 interest which is considered by the Board as material, the matters should be dealt with by a physical Board meeting rather than written resolution.

During the Financial Year, the Chairman had held one meeting with Non-executive Directors (including Independent Non-executive Directors) without the presence of executive Directors.

There had been no changes in the Company's Bye-laws during the Financial Year. The Company's Bye-laws have been published on the Company's website.

BOARD COMMITTEES

The Board has established the following committees with defined terms of references:

- Audit Committee

- Remuneration Committee

Each board 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.

The terms of references of the Audit Committee and the Remuneration Committee of the Company respectively, are published on our website.

AUDIT COMMITTEE

The Audit Committee has three members, all of whom are Independent Non-executive Directors. Mr. Lau Wai Piu is appointed as the chairman of the Audit Committee. He has appropriate professional qualifications, accounting and related financial management expertise.

(a) Composition of Audit Committee:

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

(b) Role and Function

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.

(c) Attendance

During the Financial Year, the Company held two Audit Committee meetings. The attendance rate of the Audit Committee meetings during the year was 100%.

The attendance of each Committee member is listed below:

Committee members	Number of Meetings Attended/Held
Mr. Lau Wai Piu	2/2
Mr. Peter Pun *OBE, JP*	2/2
Mr. Tsui Hing Chuen, William *JP*	2/2

During the Financial Year, the Chief Financial Officer had attended each Audit Committee meeting 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 requirements of the Listing Rules.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three Independent Non-executive Directors. The Company has also appointed an external consultant to review and compare the level of compensation paid to the Directors with those prevailing in the market and give recommendation and to review and study the remuneration level of the senior management of the Company and give recommendation.

(a) Composition of Remuneration Committee Members

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

(b) Role and Function

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 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 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.

(c) Attendance

During the Financial Year, the Company held one Remuneration Committee meeting. The attendance rate of the Remuneration Committee meeting during the year was 100%.

The attendance of each Committee member is listed below:

Committee members	Number of Meetings Attended/Held
Mr. Lau Wai Piu	1/1
Mr. Peter Pun *OBE, JP*	1/1
Mr. Tsui Hing Chuen, William *JP*	1/1

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu was reappointed as independent auditor of the Group (the "**Independent Auditor**") at the 2013 AGM. It is the Auditor's responsibility 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 purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the Independent Auditor's Report.

The statement of the Independent Auditor about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 49 to 50.

During the Financial Year, the professional fee paid/payable to the Independent Auditor, Deloitte Touche Tohmatsu, is set out as below:

	HK$'000
Audit services	3,185
Non-audit services	771
	3,956

SHAREHOLDERS RIGHTS

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

(a) Rights and Procedures for Shareholders to Convene a General Meeting

The shareholders 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 75(3) 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 annual general meeting; 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 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 by not less than ten clear business days.

(b) Procedures for 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 holding shares in the Company 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, in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and 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 valid, the Company Secretary will ask the Board to (i) include the resolution in the agenda for the annual general meeting; 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 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 annual general meeting; or (ii) the general meeting will not be convened as requested.

(c) Procedures for Shareholders to Propose 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 the Company for the attention of the Company Secretary.

In order for the Company to inform 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 general meeting notice and end no later than seven days prior to the date of any general meeting.

(d) Right and procedures for Shareholders to Put Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong as set out in the section headed "Corporate Information" for the attention of the Company Secretary or by email to us at enquiry-hk@mongolia-energy.com.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare the financial statements for each financial period which give a true and fair view of the financial affairs of the Group.

MEC'S WEBSITE

MEC's website (www.mongolia-energy.com) provides comprehensive and accessible news and information of the Company.

MEC's website also provides an open communication to our shareholders and other stakeholders. The Company will also update the website information from time to time to inform shareholders and investing public of the latest development of the Company.

The latest annual report, interim report, the Company news and many other information of the Company can be found on our website. That information available is essential for building market confidence.

Directors and Senior Management

LO LIN SHING, SIMON YVETTE ONG TO HIN TSUN, GERALD

MR. LO LIN SHING, SIMON
Chairman and Executive Director

Mr. Lo, aged 58, 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 49, has been a Director since September 1999 and was appointed as the Managing Director on 1 June 2012. She has over 20 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 65, 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.

PETER PUN

TSUI HING CHUEN, WILLIAM

LAU WAI PIU

MR. PETER PUN *OBE, JP*

Independent Non-executive Director

Mr. Pun, aged 83, 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 45 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 63, 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 50, has been 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 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 in energy resources exploration, coal operations and other related operations. The activities of the principal subsidiaries are set out in Note 41 to the consolidated financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group for the Financial Year is set out in Note 8 to the consolidated financial statements.

RESULTS

The results of the Group for the Financial Year are set out in the Consolidated Statement of Profit or Loss on page 51.

No interim dividend was declared (2013: Nil) and the Directors do not recommend the payment of a final dividend for the Financial Year (2013: Nil).

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and the share options of the Company during the year are set out in Notes 35 and 36 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 2014 and for the last four financial years are set out on page 111.

RESERVES

Movements in reserves of the Group during the year are set out on page 55.

DONATIONS

For the Financial Year, the Group made donations for charitable and other donations to a total amount of HK$3,524,000.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the 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 2014 are set out in Notes 41 and 22 to the consolidated financial statements respectively.

MAJOR SUPPLIERS AND CUSTOMERS

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

Sales

The largest customer	100%
Five largest customers in aggregate	100%

There was no purchase during the Financial Year.

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

The Directors 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)*
Mr. Liu Zhuo Wei *(Retired on 30 August 2013)*

Non-executive Director

Mr. To Hin Tsun, Gerald

Independent Non-executive Directors

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

In accordance with Bye-law 87 of the Bye-laws of the Company, Ms. Yvette Ong and Mr. Lau Wai Piu will retire from office. 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.

Biographical details of the Directors and Senior Management of the Group are set out on pages 38 to 39.

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 25 to 37.

DIRECTORS' INTERESTS

As at 31 March 2014, 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	1,212,788,301 *(Note)*	17.950%
Ms. Yvette Ong	Beneficial owner	1,090,000	0.016%
Mr. To Hin Tsun, Gerald	Beneficial owner	5,400,000	0.080%
Mr. Tsui Hing Chuen, William *JP*	Beneficial owner	500,000	0.007%
Mr. Lau Wai Piu	Beneficial owner	201,200	0.003%

Note: *Among the 1,212,788,301 shares, 4,960,000 shares represent interest of Mr. Lo on an individual basis; while 1,206,078,301 shares represent interest of Golden Infinity Co., Ltd. ("**Golden Infinity**"). The balancing of 1,750,000 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	582,555,555 *(Note)*	8.622%
Ms. Yvette Ong	Personal	10,500,000	0.155%
Mr. To Hin Tsun, Gerald	Personal	1,500,000	0.022%
Mr. Peter Pun *OBE, JP*	Personal	1,500,000	0.022%
Mr. Tsui Hing Chuen, William *JP*	Personal	1,500,000	0.022%
Mr. Lau Wai Piu	Personal	1,500,000	0.022%

Note: *Among the 582,555,555 shares, 555,555,555 shares represent interest of Golden Infinity. The balancing of 27,000,000 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 2014, 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 2014, 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 interest is held	Number and description of shares	Percentage of nominal value of issued share capital
Mrs. Lo	Beneficial owner/Interest of spouse	1,795,343,856 *(Note 1)*	26.572%
Golden Infinity	Corporate	1,761,633,856	26.073%
Dr. Cheng Kar Shun	Interest of a controlled corporation/ Interest of spouse	394,670,000 *(Note 2)*	5.841%
Ms. Ip Mei Hing	Interest of a controlled corporation/ Interest of spouse	394,670,000 *(Note 2)*	5.841%
Dragon Noble Group Limited ("**Dragon**")	Corporate	315,570,000	4.671%
Dato' Dr. Cheng Yu Tung	Beneficial owner/Interest of a controlled corporation	1,780,555,555 *(Note 3)*	26.353%
Chow Tai Fook Nominee Limited ("**CTF**")	Corporate	1,775,555,555 *(Note 3)*	26.279%

Notes:

1. *Mrs. Lo is the spouse of Mr. Lo and accordingly, she is deemed to be interested in 1,795,343,856 shares under the SFO.*

2. *Dr. Cheng Kar Shun is interested in the entire issued share capital of Dragon. By virtue of the SFO, he is deemed to be interested in 315,570,000 shares held by Dragon and 79,100,000 shares are owned by Ms. Ip Mei Hing, the spouse of Dr. Cheng Kar Shun.*

3. *Dato' Dr. Cheng Yu Tung is in control of CTF. By virtue of the SFO, he is deemed to be interested in 1,775,555,555 shares held by CTF. 1,775,555,555 shares held by CTF represent 220,000,000 shares and 1,555,555,555 underlying shares.*

Save as disclosed above and those disclosed under the section headed "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 2014.

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 and 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", the Company and its subsidiaries have no contracts of significance which a Director of the Company 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

None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts 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 was expired and terminated on 27 August 2012.

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 Director, employee, consultant, agent, or advisor of the Group or any entity in which the Group holds 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 675,654,782 which represent approximately 10% of the issued share capital of the Company as at 31 March 2014.

4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any twelve-month period must not exceed 1% of the shares of the Company in issue unless separately approved by the shareholders in general meeting.

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 Share Option Schemes

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

Details of the movement 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 2013**	**Granted during the Financial Year**	**Lapsed during the Financial Year**	**Exercised during the Financial Year**	**As at 31 March 2014**
Mr. Lo	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	6,000,000	–	–	–	6,000,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	6,000,000	–	–	–	6,000,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	–	15,000,000	–	–	15,000,000
Ms. Yvette Ong	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
	01-09-2011	0.810	01-09-2011 to 31-08-2014	N/A	5,000,000	–	–	–	5,000,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	–	5,000,000	–	–	5,000,000
Mr. To Hin Tsun, Gerald	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	500,000	–	–	–	500,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	–	500,000	–	–	500,000
Mr. Peter Pun *OBE, JP*	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	500,000	–	–	–	500,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	–	500,000	–	–	500,000
Mr. Tsui Hing Chuen, William *JP*	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	500,000	–	–	–	500,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	–	500,000	–	–	500,000
Mr. Lau Wai Piu	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	500,000	–	–	–	500,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	–	500,000	–	–	500,000
Sub-total					21,500,000	22,000,000	–	–	43,500,000

Directors' Report *(Continued)*

(B) Employees in aggregate

Name or category of participants	Date of grant	Exercise price HK$	Exercise period	Vesting period	Number of shares subject to options: As at 1 April 2013	Granted during the Financial Year	Lapsed during the Financial Year	Exercised during the Financial Year	As at 31 March 2014
Employees in aggregate (including a director of certain subsidiaries)	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	3,300,000	–	–	–	3,300,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	42,500,000	–	–	–	42,500,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	–	44,500,000	(1,000,000)	–	43,500,000
Sub-total					45,800,000	44,500,000	(1,000,000)	–	89,300,000
TOTAL					**67,300,000**	**66,500,000**	**(1,000,000)**	**–**	**132,800,000**

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A to the Listing Rules, the following connected transaction is required to disclose in the annual report of the Company:

Continuing Connected Transaction

Financial Assistance provided by Mr. Lo

Mr. Lo has provided a standby revolving facility of up to HK$1,900 million (the "**Facility**") to the Company for its general working capital. The provision of the Facility constituted an exempt connected transaction under Rule 14A.65 of the Listing Rules.

As at 31 March 2014, a total of HK$780 million was drawn by the Company.

Agreed upon procedures performed by the Auditor of the Company

Pursuant to Rule 14.38 of the Listing Rules, the Board engaged the Independent Auditor to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagement 3000 "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 Independent Auditor has issued an unqualified letter containing his findings and conclusion in respect of the continuing connected transactions. A copy of the Independent Auditor's letter has been provided by the Company to the Stock Exchange.

Confirmation of Independent Non-executive Directors

Pursuant to Rule 14A.37 of the Listing Rules, the Company's Independent Non-executive Directors had reviewed the above connected transaction and the Independent Auditor's letter on continuing connected transaction and have confirmed that the transaction had been entered into by the Group:

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

(ii) on normal commercial terms; and

(iii) in accordance with the terms of the respective agreements governing such transaction that was fair and reasonable and in the interests of the Shareholders as a whole.

Save as disclosed above, a summary of significant related party transactions that did not constitute connected transactions made during the year was disclosed in Note 39 to the consolidated financial statements.

GROUP'S BORROWINGS

Details of the Group's borrowings are set out in Notes 31, 32 and 39(a) 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 Bermuda Companies Act which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

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

The audited financial statements for the Financial Year had been reviewed by the Audit Committee.

HUMAN RESOURCES

As at 31 March 2014, excluding site and construction workers directly employed by our contractors, the Group employed 293 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 Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lo Lin Shing, Simon
Chairman

Hong Kong, 27 June 2014

Independent Auditor's Report

Deloitte.
德勤

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

We were engaged to audit 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 109, which comprise the consolidated statement of financial position as at 31 March 2014, 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 of the Company 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. Except for the inability to obtain sufficient appropriate audit evidence as explained below, 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. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

As set out in note 1 to the consolidated financial statements, the Group's current liabilities exceeded its current assets by approximately HK$4,288 million as at 31 March 2014, including advances from a Director, convertible notes and other financial liabilities of which the aggregate carrying amount is approximately HK$4,041 million. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from a substantial shareholder who is also the chairman and a director of the Company, the holders of the convertible notes and the other loan provider. As of the date of our audit report, the Group is in negotiation with all the existing convertible note holders and the other loan provider in relation to a moratorium and debt restructuring plans to meet its financial obligations. If these finances are not forthcoming, the Group would be unable to meet its financial obligations as and when they fall due. We were unable to confirm or verify by alternative means the Group's ability to continue as a going concern as the unutilised facilities provided by the substantial shareholder and chairman of the Company is insufficient to satisfy the financial obligations of the Group as at 31 March 2014 and in the near future. Moreover, the debt restructuring plans are still at a preliminary stage of negotiation and it is too early to assess the likelihood of an agreement being reached. As a result, we were unable to determine whether any adjustments might have been found to be necessary in respect of a failure to obtain sufficient finance.

In view of the extent of the limitation of audit evidence relating to the ongoing availability of finance to the Group, we disclaim our opinion in this respect.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTERS

As disclosed in notes 16 and 21 to the consolidated financial statements, the Group owns a number of mining concessions in Western Mongolia for coal mining, four of which the Mineral Resources Authority of Mongolia has notified the Group are within the area designated as land where mineral exploration and mining are prohibited under the Mining Prohibition Law (the "**MPL**") and the Group owns a number of exploration/mining concessions in Western Mongolia, which are also within the designated areas prohibited under the MPL. According to the MPL, the affected licence holders, including the Group, are to be compensated but details of the compensation are not currently available. If any of these mining concessions and/or exploration concession are revoked due to the MPL and the compensation received by the Group is significantly less than the carrying amounts of these concessions, the Group might incur a significant impairment loss on the related assets. The Directors have concluded that, other than the accumulated impairment losses recognised, no impairment that results from the MPL are required to be recognised in the consolidated

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 June 2014

Consolidated Statement of Profit or Loss

For the year ended 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
Revenue	8	**498**	11,792
Cost of sales		**(4,632)**	(261,863)
Gross loss		**(4,134)**	(250,071)
Other income	9	**322**	5,056
Other gains and losses	10	**(207,028)**	(12,333)
Other expenses	12	**(55,734)**	(31,860)
Administrative expenses		**(182,077)**	(179,025)
Fair value gain on derivative component of convertible notes		**42,392**	302,987
Impairment loss on property, plant and equipment	3, 16	**(224,011)**	(2,749,126)
Impairment loss on intangible assets	3, 19	**(28,416)**	(373,318)
Impairment loss on development in progress	3, 20	**(981)**	(12,488)
Impairment loss on available-for-sale financial asset	23	**(934)**	–
Impairment loss on amounts due from associates		**(5,496)**	(2,512)
Finance costs	11	**(372,027)**	(388,743)
Loss before taxation	12	**(1,038,124)**	(3,691,433)
Income tax expense	13	**–**	(7,385)
Loss for the year		**(1,038,124)**	(3,698,818)
Loss for the year attributable to owners of the Company		**(1,038,124)**	(3,698,818)
Loss per share attributable to owners of the Company			
– basic and diluted loss per share (HK cents)	15	**(15.36)**	(54.74)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2014

	2014 HK$'000	2013 HK$'000
Loss for the year	**(1,038,124)**	(3,698,818)
Other comprehensive income/(expense)		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences arising on translation	**6,651**	(394)
Total comprehensive expense for the year	**(1,031,473)**	(3,699,212)

Consolidated Statement of Financial Position

As at 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	16	**6,733,169**	6,850,079
Investment property	18	**–**	124,900
Intangible assets	19	**852,792**	913,073
Development in progress	20	**29,468**	30,449
Exploration and evaluation assets	21	**285,676**	292,690
Interests in associates	22	**–**	–
Available-for-sale financial asset	23	**–**	–
Other asset		**1,150**	1,150
Prepayments for exploration and evaluation expenditure	24	**10,458**	10,458
Deposits for property, plant and equipment	25	**–**	6,508
Prepaid lease payment	17	**15,651**	–
		7,928,364	8,229,307
Current assets			
Trade receivables	26	**–**	29
Inventories	27	**491**	5,183
Other receivables, prepayments and deposits		**22,459**	14,963
Held-for-trading investments	28	**56,278**	26,528
Amounts due from associates	22	**–**	9,270
Cash and cash equivalents	29	**48,566**	51,578
		127,794	107,551
Current liabilities			
Trade payables	30	**68,136**	68,941
Other payables and accruals		**306,572**	152,335
Convertible notes	31	**2,454,535**	741,279
Advances from a Director	39(a)	**780,210**	470,013
Other financial liabilities	32	**805,993**	51,527
		4,415,446	1,484,095
Net current liabilities		**(4,287,652)**	(1,376,544)
Total assets less current liabilities		**3,640,712**	6,852,763
Non-current liabilities			
Convertible notes	31	**–**	2,206,661
Deferred income	33	**12,665**	–
		12,665	2,206,661
Net assets		**3,628,047**	4,646,102

Consolidated Statement of Financial Position *(Continued)*
As at 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
Financed by:			
Capital and reserves			
Share capital	35	**135,131**	135,131
Reserves		**3,492,916**	4,510,971
Equity attributable to owners of the Company		**3,628,047**	4,646,102

The consolidated financial statements on pages 51 to 109 were approved and authorised for issue by the Board of Directors on 27 June 2014 and are signed on its behalf by:

Lo Lin Shing, Simon	**Yvette Ong**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 March 2014

	Attributable to owners of the Company								
	Share capital	Share premium	Contributed surplus	Share options reserve	Translation reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2012	135,131	13,107,506	199,594	62,037	(20,958)	(5,138,053)	8,345,257	57	8,345,314
Comprehensive expense									
Loss for the year	–	–	–	–	–	(3,698,818)	(3,698,818)	–	(3,698,818)
Other comprehensive expense									
Exchange differences arising on translation	–	–	–	–	(394)	–	(394)	–	(394)
Total comprehensive expense for the year	–	–	–	–	(394)	(3,698,818)	(3,699,212)	–	(3,699,212)
Reversal of previous shares of results by non- controlling interests	–	–	–	–	–	57	57	(57)	–
At 31 March 2013	**135,131**	**13,107,506**	**199,594**	**62,037**	**(21,352)**	**(8,836,814)**	**4,646,102**	**–**	**4,646,102**
Comprehensive expense									
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(1,038,124)**	**(1,038,124)**	**–**	**(1,038,124)**
Other comprehensive income									
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**6,651**	**–**	**6,651**	**–**	**6,651**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**6,651**	**(1,038,124)**	**(1,031,473)**	**–**	**(1,031,473)**
Equity-settled share-based payments	**–**	**–**	**–**	**13,418**	**–**	**–**	**13,418**	**–**	**13,418**
Share options lapsed	**–**	**–**	**–**	**(16,257)**	**–**	**16,257**	**–**	**–**	**–**
At 31 March 2014	**135,131**	**13,107,506**	**199,594**	**59,198**	**(14,701)**	**(9,858,681)**	**3,628,047**	**–**	**3,628,047**

Consolidated Statement of Cash Flows

For the year ended 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
Operating activities			
Loss before taxation		**(1,038,124)**	(3,691,433)
Interest income		**(142)**	(502)
Finance costs	11	**372,027**	388,743
Exchange loss		**3,112**	–
Loss on (reversal of loss on) write off of property, plant and equipment	16	**155**	(792)
Loss on write off of exploration and evaluation assets	21	**12,630**	15,182
Loss on write off of deposit		**–**	1,741
Loss on write off of deposit for property, plant and equipment and other long-term deposits		**–**	1,589
Gain on disposal of property, plant and equipment		**(24)**	(748)
Amortisation of intangible assets		**31,865**	23,069
Amortisation of the transaction costs on issuance of convertible notes	31	**3,233**	6,053
Depreciation		**31,711**	17,882
Fair value gain on investment property	18	**–**	(6,870)
Fair value (gain) loss from held-for-trading investments		**(29,750)**	641
Fair value gain on derivative component of convertible notes	31	**(42,392)**	(302,987)
Impairment loss on property, plant and equipment	16	**224,011**	2,749,126
Impairment loss on intangible assets	19	**28,416**	373,318
Impairment loss on development in progress	20	**981**	12,488
Impairment losses on amounts due from associates		**5,496**	2,512
Impairment loss on available-for-sale financial asset	23	**934**	–
Loss on remeasurement of debt component of convertible notes	31	**219,827**	–
Equity-settled share-based payments	36	**13,418**	–
Operating cash flows before movements in working capital		**(162,616)**	(410,988)
Decrease in inventories		**4,631**	54,442
Decrease in trade receivables		**29**	5,360
(Increase) decrease in other receivables, prepayments and deposits		**(9,375)**	13,879
(Decrease) increase in trade payables		**(619)**	43,039
(Decrease) increase in other payables and accruals		**(37,480)**	9,999
Net cash used in operations		**(205,430)**	(284,269)
Income tax paid		**–**	–
Net cash used in operating activities		**(205,430)**	(284,269)

	Notes	2014 HK$'000	2013 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(130,899)**	(116,524)
Proceeds received from disposal of property, plant and equipment		**129**	3,818
Proceeds received from disposal of investment property	18	**128,543**	–
Purchase of prepaid lease payment	17	**(15,651)**	–
Government grant	33	**12,665**	–
Exploration and evaluation asset additions	21	**(5,616)**	(8,666)
Deposits for property, plant and equipment		**–**	(6,508)
Advances to associates		**(171)**	(2,462)
Repayment of advances from associates		**3,120**	580
Available-for-sale financial asset addition	23	**(934)**	–
Bank interest received		**142**	502
Net cash used in investing activities		**(8,672)**	(129,260)
Financing activities			
Proceeds received from issue of convertible notes		**–**	400,000
Proceeds received from other loan		**–**	50,000
Repayment of other loan		**(50,000)**	–
Advances from a Director		**288,561**	355,286
Repayment of advances from a Director		**(25,320)**	(398,320)
Interest paid		**(2,294)**	(26,822)
Transaction cost on issuance of convertible notes		**–**	(695)
Net cash from financing activities		**210,947**	379,449
Net decrease in cash and cash equivalents		**(3,155)**	(34,080)
Cash and cash equivalents at beginning of the year		**51,578**	84,963
Effect of foreign exchange rate changes		**143**	695
Cash and cash equivalents at end of the year		**48,566**	51,578

Notes to the Consolidated Financial Statements

For the year ended 31 March 2014

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 41st Floor, New World Tower 1, 16–18 Queen's Road Central, 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 dollars. The functional currency of the Company is United States dollars ("**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 dollars, as the Company's shares are listed on Stock Exchange.

During the year, the convertible notes in the aggregate principal amount of HK$466,800,000 issued to Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, and Sculptor Finance (SI) Ireland Limited (the "**OZ Convertible Note**") matured on 12 November 2013 and the Company has not redeemed the principal and repaid the interest thereon on their maturities, therefore, the Company is in breach of the redemption requirement under the OZ Convertible Note. An agreement has been signed between the Company and the holders of OZ Convertible Note on 15 November 2013 to forbear from taking any legal action to enforce the Company's obligation to repay the principals and interests due under the OZ Convertible Note from 12 November 2013 to 12 May 2014 ("**Moratorium Period**"). The Moratorium Period has been further extended to 12 August 2014 on 12 May 2014. The Company's default on redemption of the OZ Convertible Note also triggered the Company's early redemption obligation under other existing convertible notes. Accordingly, the Group remeasured the carrying amounts of other existing convertible notes to their redemption amounts. In addition, the liabilities relating to long term convertible notes have been reclassified as current liabilities as at 31 March 2014.

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 current liabilities of approximately HK$4,287.7 million at 31 March 2014 and incurred a loss of approximately HK$1,038.1 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 giving that: (1) Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and chairman of the Company, has provided facilities amounting to HK$1,900.0 million with maturity date on 31 March 2016, of which approximately HK$1,119.8 million was unutilised as at 31 March 2014 and (2) the Company will exercise its endeavour to reach an acceptable debt restructuring with the holders of the convertible notes and other loan provider of the Company.

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

In the current financial year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"):

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009–2011 Cycle
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 "Consolidated Financial Statements", HKFRS 11 "Joint Arrangements", HKFRS 12 "Disclosure of Interests in Other Entities", HKAS 27 (as revised in 2011) "Separate Financial Statements" and HKAS 28 (as revised in 2011) "Investments in Associates and Joint Ventures", together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of application of HKFRS 10 and HKFRS 12 are set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and HK(SIC) Int – 12 "Consolidation – Special Purpose Entities". HKFRS 10 changes the definition of control such that an investor has control over an investee when: a) it has power over the investee; b) it is exposed, or has rights, to variable returns from its involvement with the investee; and c) it has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The Directors have made an assessment of the application of HKFRS 10 and concluded that the application of the standard has no significant impact on the financial results or position of the Group for the current and prior years.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see Note 22 for details).

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

HKFRS 13 "Fair Value Measurement"

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, 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 (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

Other than the additional disclosures in Note 7, the application of HKFRS 13 has no material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Upon application of the amendments to HKAS 1, the Group's statement of comprehensive income is renamed as statement of profit or loss and other comprehensive income and income statement is renamed as statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

In addition, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories:

(a) items that will not be reclassified subsequently to profit or loss; and

(b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

HK(IFRIC) – Int 20 "Stripping Costs in the Production Phase of a Surface Mine"

HK(IFRIC) – Int 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when one of the two benefits accrue to the entity from the stripping activity: useable ore that can be used to produce inventory or improved access to further quantities of material that will be mined in future periods.

The Directors have made an assessment of the application of HK(IFRIC) – Int 20 and concluded that the application of the standard has no significant impact on the financial results or position of the Group for the current and prior years as there has been no significant stripping activity being carried out during production phase.

Except as described above, the application of the other new or revised HKFRSs in the current year has 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 HKFRSs that have been issued but are not yet effective:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010–2012 Cycle[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011–2013 Cycle[5]
HKFRS 9	Financial Instruments[3]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[1]
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations[4]
HKFRS 14	Regulatory Deferral Accounts[6]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[4]
HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions[5]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[1]
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets[1]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014 with limited exception
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 January 2016
5 Effective for annual periods beginning on or after 1 July 2014
6 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

The Directors anticipate that the application of the above new or revised standards, amendments to existing standards or interpretations will have no material impact on the results, the financial position and disclosures of the consolidated financial statements of the Group.

3. IMPAIRMENT LOSS RECOGNISED ON KHUSHUUT MINE 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 development in progress 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.

3. IMPAIRMENT LOSS RECOGNISED ON KHUSHUUT MINE RELATED ASSETS *(Continued)*

As the recoverable amount of the Khushuut Related Assets determined by the Independent Valuer is significantly lower than their carrying values, an impairment loss amounting to HK$253,408,000 (2013: HK$3,134,932,000) was recognised in the consolidated statement of profit or loss in the current year against the respective assets on a pro-rata basis with reference to their carrying values as follows:

For the year ended 31 March 2014

	Carrying values before impairment HK$'000	**Impairment loss HK$'000**	**Carrying values after impairment HK$'000**
Property, plant and equipment	**6,946,755**	**224,011**	**6,722,744**
Intangible assets	**881,204**	**28,416**	**852,788**
Development in progress	**30,449**	**981**	**29,468**
Total	**7,858,408**	**253,408**	**7,605,000**

The commercial production of Khushuut Coal Mine in Western Mongolia halted since October 2012 due to the dispute with the former sole mining contractor and the relevant mining services agreement had been terminated. Subsequent to the year ended 31 March 2014, the Group has entered into a mining services agreement with a newly appointed mining contractor to provide topsoil and overburden removal services for the Khushuut Coal Mine. Accordingly, in assessing the recoverable amount, the Directors instructed the Independent Valuer to use the information and assumptions provided by the newly appointed mining contractor, including cost structure, production capacity of the Khushuut Related Assets and timing of recommencement of commercial coal production.

The main reasons for such impairment loss being recognised in profit or loss this year are due to changes in cost estimation based on currently available information and adjustment of the discount rate reflecting the latest market rate.

For the year ended 31 March 2013

	Carrying values before impairment HK$'000	Impairment loss HK$'000	Carrying values after impairment HK$'000
Property, plant and equipment	9,585,438	2,749,126	6,836,312
Intangible assets	1,286,277	373,318	912,959
Development in progress	42,937	12,488	30,449
Total	10,914,652	3,134,932	7,779,720

The main reasons for such a significant impairment loss being recognised in profit or loss during the year ended 31 March 2013 are due to changes made in response to the cost structure of the potential coal extraction contractor, decrease in estimated selling price of coal and changes made in response to the temporary suspension of coal commercial production.

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 consolidated financial statements have been prepared on the historical cost basis except for investment property and 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, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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.

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. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. 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 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 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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.

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 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.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of the investment property are included in the consolidated statement of profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss in the year in which the property is derecognised.

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 of intangible assets with finite useful lives is provided 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 accounted for on a prospective basis.

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.

Intangible assets (exclusive right of use of paved road)
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.

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 losses 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets (excluding exploration and evaluation assets) *(Continued)*

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.

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 lease is recognised on a straight-line basis over the relevant lease.

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Inventories

Inventories are carried 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.

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 on the dates of the transaction. At the end of the 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the 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 expenses 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, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), 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. Exchange differences arising from the translation of functional currency into the presentation currency of the Group are transferred directly from translation reserve to accumulated losses.

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.

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.

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 of income or expense that are taxable or deductible in other years and items that are never taxable nor deductible. The Group's liability for 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 other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time. If the presumption is rebutted, deferred tax for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

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

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*
Effective interest method (Continued)
Interest income is recognised on an effective interest basis for debt instruments.

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 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 includes any dividend or interest earned on the financial assets.

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 receivables, other receivables, amounts due from associates and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets
Available-for-sale 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.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they 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).

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where 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.

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 the estimated future cash flows discounted at the financial asset's original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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 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

Financial liabilities 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Remeasurement of debt components of convertible note

If the Group revises its estimates of payments of the convertible notes, the carrying amount of the debt component of the convertible notes will be adjusted to reflect the actual and revised estimate of cash flows. The carrying amount of the debt component of the convertible notes is recalculated by computing the present value of estimated future cash flows discounted at the original effective interest rate. The difference between the carrying amount before such revision and the present value of the estimated future cash flows is recognised in profit or loss as gain or loss on remeasurement of debt components of convertible notes.

Other financial liabilities

Other financial liabilities including trade payables, other payables, advances from a Director and other financial liabilities 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, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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.

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.

Share options granted to non-employees

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

Other than the uncertainty relating to certain assets subject to MPL (as defined in Note 16) as discussed in details in Note 16 and Note 21, 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 are required 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.

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 31, 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 2014, fair value of derivative components of the convertible notes is HK$54,419,000 (2013: HK$96,811,000).

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 timing of recommencement of commercial coal production, cost structure, production capacity, annual production estimate, forecasted selling price, estimated period of production and discount rate. During the year ended 31 March 2014, an impairment amounting to HK$253,408,000 (2013: HK$3,134,932,000) was recognised against the Khushuut Related Assets as its recoverable amount is significantly 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.

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

Estimated impairment of Khushuut Related Assets *(Continued)*

As at 31 March 2014, the carrying value of Khushuut Related Assets is HK$7,605,000,000 (net of accumulated impairment loss of HK$7,988,340,000) (2013: carrying value of HK$7,779,720,000, net of accumulated impairment loss of HK$7,734,932,000).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern 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, convertible notes disclosed in Note 31, other financial liabilities disclosed in Note 32, net of cash and cash equivalents and equity attributable to owners of the Company, 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

	2014 **HK$'000**	2013 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	**55,066**	64,718
Available-for-sale financial asset	**–**	–
Held-for-trading investments	**56,278**	26,528
Financial liabilities		
Measured at amortised cost	**4,360,534**	3,593,473
Embedded derivative component of convertible notes	**54,419**	96,811

7b. Financial risk management objectives and policies

The Group's financial instruments include trade receivables, other receivables, held-for-trading investments, available-for-sale financial asset, amounts due from associates, cash and cash equivalents, trade payables, other payables, advances from a Director, other financial liabilities 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.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk

(i) Currency risk

The Group mainly operates in Hong Kong, Mainland China and Mongolia and 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, other financial liabilities 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	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Hong Kong Dollars ("**HK$**")	**4,237,410**	3,474,317	**3,335**	4,253
Renminbi ("**RMB**")	**73,113**	85,832	**14,873**	900
Mongolian Tugrik ("**MNT**")	**6,966**	69,940	**10,264**	3,518

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.

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% (2013: 5%) increase and decrease in US$ against the relevant foreign currencies. 5% (2013: 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% (2013: 5%) against RMB and MNT respectively. For a 5% (2013: 5%) strengthen of US$ against RMB and MNT respectively, there would be an equal and opposite impact on the loss, vice versa.

	RMB		MNT	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Increase in loss for the year *(Note)*	**(2,912)**	(4,253)	**165**	(3,518)

Note:

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

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate convertible notes (see Note 31) and other financial liabilities. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 29), advances from a Director and other financial liabilities.

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 fluctuation of the prevailing time deposit rate on bank balances arising from the Group's Hong Kong Dollar denominated bank balances and prime rate in relation to advances from a Director and other financial liabilities.

Sensitivity analysis

The sensitivity analysis on the exposure to the Group's cash flow interest rate risk has not been performed as the management considers that the exposure to these risks is insignificant.

(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 equity instruments 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 2014 would decrease/increase by HK$2,814,000 (2013: HK$1,326,000) 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 2014, the investment has been fully impaired.

(b) Price risk on embedded derivatives components of the convertible notes (defined in Note 31)

For the year ended 31 March 2014, 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 is 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.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(iii) Other price risk (Continued)

(b) Price risk on embedded derivatives components of the convertible notes (defined in Note 31) *(Continued)*

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$5,058,000 (2013: HK$3,718,000)/decrease by HK$8,298,000 (2013: HK$1,792,000), 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$4,578,000 (2013: HK$5,380,000)/decrease by HK$8,640,000 (2013: HK$715,000), as a result of changes in fair value of the derivative component of the convertible notes.

In management's opinion, the sensitivity analysis above is 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.

Credit risk

As at 31 March 2014, 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 does not have any other significant credit risk.

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. During the year ended 31 March 2014, the Company has not redeemed the principal and repaid the interest of OZ Convertible Note on its maturities, therefore, the Company is in breach of the redemption requirement under the OZ Convertible Note. The Company's default on redemption of the OZ Convertible Note also triggered the Company's early redemption obligation under other existing convertible notes. Accordingly, the Group remeasured the carrying amounts of other existing convertible notes to their redemption amounts. In addition, the liabilities relating to long term convertible notes have been reclassified as current liabilities as at 31 March 2014. The amount of net current liabilities is HK$4,287,652,000 (2013: HK$1,376,544,000).

As at 31 March 2014, 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$1,119.8 million unutilised to meet the Group's future funding needs and the Company will exercise its endeavour to reach an acceptable debt restructuring with the holders of the convertible notes and other loan provider of the Company during the Moratorium Period.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of the 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.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

2014

	Weighted average effective interest rate	Less than 1 month or repayable on demand	1–3 months	3 months to 1 year	1–5 years	Total undiscounted cash flows	Carrying amount at 31 March 2014
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables *(Note 30)*	–	68,136	–	–	–	68,136	68,136
Other payables	–	245,609	1,424	59,046	–	306,079	306,079
Advances from a Director – floating rate *(Note 39(a))*	8%	780,210	–	–	–	780,210	780,210
Other financial liabilities – fixed rate *(Note 32)*	3.5%	–	–	815,981	–	815,981	805,993
Convertible notes (debt component) – fixed rate *(Note 31)*	–	2,400,116	–	–	–	2,400,116	2,400,116
		3,494,071	1,424	875,027	–	4,370,522	4,360,534

2013

	Weighted average effective interest rate	Less than 1 month or repayable on demand	1–3 months	3 months to 1 year	1–5 years	Total undiscounted cash flows	Carrying amount at 31 March 2013
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables *(Note 30)*	–	68,941	–	–	–	68,941	68,941
Other payables	–	76,066	234	75,563	–	151,863	151,863
Advances from a Director – floating rate *(Note 39(a))*	8%	470,013	–	–	–	470,013	470,013
Other financial liabilities – floating rate *(Note 32)*	5%	–	–	52,500	–	52,500	51,527
Convertible notes (debt component) – fixed rate *(Note 31)*	15.8%	–	–	793,638	2,640,000	3,433,638	2,851,129
		615,020	234	921,701	2,640,000	4,176,955	3,593,473

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.

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)*

Financial assets/ financial liabilities	Fair value as at 31 March 2014	2013	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$56,278,000**	Listed equity securities: HK$26,528,000	Level 1	– Quoted bid prices in an active market	N/A	N/A
2) Embedded derivatives component of convertible notes	**HK$54,419,000**	HK$96,811,000	Level 3	– Binomial Valuation Model – The key inputs are stock price, exercise price, option life, risk free rate, volatility and dividend yield	– Volatility ranging from 73% to 110% (2013: 60% to 105%)	– The higher the volatility, the higher the fair value (Note)

Note:

Sensitively analysis is performed in Note 7b.

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

Fair value measurements and valuation processes

The executive directors are responsible to determine 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.

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.

Reconciliation of Level 3 fair value measurements of financial liabilities

	Embedded derivatives component of convertible notes HK$'000
At 1 April 2012	285,208
Issue of convertible note	114,590
Unrealised fair value gain recognised in the consolidated statement of profit or loss	(302,987)
At 31 March 2013	96,811
Unrealised fair value gain recognised in the consolidated statement of profit or loss	**(42,392)**
At 31 March 2014	**54,419**

8. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the energy and related resources business. Revenue represents revenue arising on the sale of coking 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 2014

	Coal mining HK$'000	**Total HK$'000**
Segment revenue	**498**	**498**
Segment loss	**(443,000)**	**(443,000)**
Unallocated expenses *(Note)*		**(68,270)**
Interest income		**19**
Other gains and losses		**(190,808)**
Fair value gain on derivative component of convertible notes		**42,392**
Impairment losses on available-for-sale financial asset		**(934)**
Impairment losses on amounts due from associates		**(5,496)**
Finance costs		**(372,027)**
Loss before taxation		**(1,038,124)**

For the year ended 31 March 2013

	Coal mining HK$'000	Total HK$'000
Segment revenue	11,792	11,792
Segment loss	(3,541,281)	(3,541,281)
Unallocated expenses *(Note)*		(67,051)
Interest income		17
Other gains and losses		5,150
Fair value gain on derivative component of convertible notes		302,987
Impairment losses on amounts due from associates		(2,512)
Finance costs		(388,743)
Loss before taxation		(3,691,433)

Note:

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

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and result *(Continued)*

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 interest income, finance costs, change in fair value of investment property, held-for-trading investments and derivative component of convertible notes, write off of deposit, loss on remeasurement of debt component of convertible notes, impairment losses on available-for-sale financial asset and amounts due from associates. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

As at 31 March 2014

	HK$'000
ASSETS	
Segment assets – coal mining	7,702,022
Held-for-trading investments	56,278
Cash and cash equivalents	6,623
Other unallocated assets *(Note a)*	291,235
Consolidated total assets	8,056,158
LIABILITIES	
Segment liabilities – coal mining	148,539
Convertible notes	2,454,535
Advances from a Director	780,210
Other financial liabilities	805,993
Other unallocated liabilities *(Note b)*	238,834
Consolidated total liabilities	4,428,111

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

As at 31 March 2013

	HK$'000
ASSETS	
Segment assets – coal mining	7,884,854
Investment property	124,900
Held-for-trading investments	26,528
Cash and cash equivalents	7,711
Other unallocated assets *(Note a)*	292,865
Consolidated total assets	8,336,858
LIABILITIES	
Segment liabilities – coal mining	175,922
Convertible notes	2,947,940
Advances from a Director	470,013
Other financial liabilities	51,527
Other unallocated liabilities *(Note b)*	45,354
Consolidated total liabilities	3,690,756

Note:

(a) Other unallocated assets mainly represent property, plant and equipment, intangible assets, exploration right for iron ore, 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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2014

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

	2014 **HK$'000**	2013 HK$'000
Capital additions *(Note)*	**157,851**	131,775
Amortisation of intangible assets	**31,865**	41,656
Depreciation of property, plant and equipment	**30,315**	32,751
Impairment loss on property, plant and equipment	**224,011**	2,749,126
Impairment loss on intangible assets	**28,416**	373,318
Impairment loss on development in progress	**981**	12,488
Loss (reversal of loss) on write off of property, plant and equipment	**155**	(792)
Loss on write off of exploration and evaluation assets	**12,630**	15,182

Note:

Capital additions to property, plant and equipment, prepaid lease payment, development in progress, exploration and evaluation asset.

Geographical information

The Group's operations are principally located in Hong Kong, Mongolia and Mainland China.

All the coal sales revenue is derived from Mongolia and/or Mainland China.

The Group's information about its non-current assets by geographical location is detailed below:

	Non-current assets	
	2014 **HK$'000**	2013 HK$'000
Hong Kong	**1,941**	2,573
Mongolia	**7,811,091**	8,090,109
Mainland China	**115,332**	136,625
	7,928,364	8,229,307

Note:

Non-current assets exclude financial instruments.

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2014 **HK$'000**	2013 HK$'000
Customer A	**498**	–
Customer B	**–**	6,604
Customer C	**–**	4,269
	498	10,873

9. OTHER INCOME

	2014 **HK$'000**	2013 HK$'000
Equipment rental income	**–**	4,548
Interest income	**142**	502
Sundry income	**180**	6
	322	5,056

10. OTHER GAINS AND LOSSES

	2014 **HK$'000**	2013 HK$'000
Fair value gain on investment property	**–**	6,870
Fair value gain/(loss) on held-for-trading investments	**29,750**	(641)
(Loss)/reversal of loss on write off of property, plant and equipment	**(155)**	792
Loss on write off of exploration and evaluation assets *(Note 21)*	**(12,630)**	(15,182)
Loss on write off of deposit	**–**	(1,741)
Loss on write off of deposit for property, plant and equipment and other long-term deposits	**–**	(1,589)
Gain on disposal of property, plant and equipment	**24**	748
Net exchange losses	**(4,190)**	(1,590)
Loss on remeasurement of debt component of convertible notes	**(219,827)**	–
	(207,028)	(12,333)

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2014

11. FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Interest on borrowings wholly repayable within five years:		
Interest on:		
Advances from a Director *(Note 39(a))*	**46,956**	33,499
Other financial liabilities *(Note 32)*	**13,122**	1,527
Convertible notes after remeasurement	**47,233**	–
Effective interest expense on convertible notes *(Note 31)*	**264,716**	353,717
	372,027	388,743

12. LOSS BEFORE TAXATION

	2014 HK$'000	2013 HK$'000
Loss before taxation has been arrived at after charging:		
Directors' emoluments *(Note 14(a))*	**9,824**	5,225
Other staff costs:		
Salaries and other benefits	**54,908**	43,923
Retirement benefits scheme contributions (excluding contributions for Directors)	**5,075**	3,255
Total staff costs (including equity-settled share-based payments)	**69,807**	52,403
Amortisation of intangible assets	**31,865**	41,662
Depreciation of property, plant and equipment	**31,711**	34,583
Less: Loss on suspension of production (included in other expenses)	**(55,734)**	(31,860)
	7,842	44,385
Auditor's remuneration	**3,185**	3,137
Cost of inventories recognised as an expense	**498**	35,121
Direct operating expenses arising from investment property that do not generate rental income	**–**	16
Operating lease rental in respect of office premises	**11,721**	16,914

13. INCOME TAX EXPENSE

	2014 HK$'000	2013 HK$'000
Current tax	–	–
Deferred tax *(Note 34)*		
Charge for current year	–	7,385
	–	7,385

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

Mongolian corporate income tax is calculated at 10% at the estimated assessable profit (if any) 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:

	2014 HK$'000	2013 HK$'000
Loss before taxation	**(1,038,124)**	(3,691,433)
Calculated at a tax rate of 16.5%	**(171,290)**	(609,086)
Tax effect on income not subject to tax	**(12,244)**	(51,280)
Tax effect on expenses not deductible for tax purposes	**165,735**	502,961
Tax effect on deductible temporary differences not recognised	**11,294**	109,101
Tax effect on tax loss not recognised	**6,505**	48,304
Reversal of previously recognised temporary differences	–	12,185
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	(4,800)
Income tax expense	–	7,385

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 chief executive for the year ended 31 March 2014 is as follows:

Name of Directors	**Fees**	**Salaries**	**Other benefits**	**Equity-settled share-based payments**	**Employer's contribution to MPF Scheme**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Executive Directors						
Lo Lin Shing, Simon	**–**	**–**	**2,097**	**3,027**	**–**	**5,124**
Yvette Ong	**–**	**2,700**	**262**	**1,009**	**15**	**3,986**
Non-executive Director						
To Hin Tsun, Gerald	**10**	**–**	**–**	**101**	**–**	**111**
Independent Non-executive Directors						
Peter Pun	**100**	**–**	**–**	**101**	**–**	**201**
Lau Wai Piu	**100**	**–**	**–**	**101**	**–**	**201**
Tsui Hing Chuen, William	**100**	**–**	**–**	**101**	**–**	**201**
	310	**2,700**	**2,359**	**4,440**	**15**	**9,824**

The remuneration of each of the Directors and chief executive for the year ended 31 March 2013 is as follows:

Name of Directors	Fees	Salaries	Other benefits	Equity-settled share-based payments	Employer's contribution to MPF Scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors						
Lo Lin Shing, Simon	–	–	1,938	–	–	1,938
Liu Zhuo Wei	–	–	–	–	–	–
Yvette Ong	–	2,700	262	–	15	2,977
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	2,700	2,200	–	15	5,225
Chief Executive Officer						
James J. Schaeffer	–	1,000	28	–	–	1,028

James J. Schaeffer retired as chief executive officer with effect from 1 June 2012. Since then, Yvette Ong is the chief executive of the Group. Her emolument disclosed above included those for services rendered by her as chief executive.

During the two years ended 31 March 2014 and 2013, no Director waived any directors' emoluments.

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

(b) Senior managements' emoluments

Of the five individuals with the highest emoluments in the Group, two (2013: two) were Directors of the Company whose emoluments are included in Note (a) above. The emoluments of the remaining three (2013: three) highest paid individuals during the year are as follows:

	2014 **HK$'000**	2013 HK$'000
Basic salaries, other allowances and benefits in kind	**10,089**	8,176
Contributions to MPF Scheme	**15**	15
Equity-settled share-based payments	**4,439**	–
	14,543	8,191

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2014**	2013
HK$1,500,001–HK$2,000,000	**–**	1
HK$2,000,001–HK$2,500,000	**–**	1
HK$3,500,001–HK$4,000,000	**1**	1
HK$4,500,001–HK$5,000,000	**1**	–
HK$6,000,001–HK$6,500,000	**1**	–
	3	3

15. LOSS PER SHARE

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

	2014 **HK$'000**	2013 HK$'000
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	**(1,038,124)**	(3,698,818)

	2014 **'000**	2013 '000
Number of shares		
Number of ordinary shares in issue for the calculation of basic and diluted loss per share	**6,756,548**	6,756,548

Note:

The denominators used are the same as those detailed above for both basic and diluted loss per share.

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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2014

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 2012	494,544	12,952,851	78,003	23,300	4,861	5,740	18,174	43,462	13,620,935
Exchange adjustments	–	(3,458)	–	2	2	4	–	251	(3,199)
Additions	–	–	62,215	1,894	697	1,845	6,959	51,014	124,624
Written off	–	–	–	(8,405)	(21)	(10)	–	–	(8,436)
Reversal of written off	–	–	–	–	–	–	–	1,339	1,339
Reclassification between categories	1,725	–	(9,986)	–	–	–	9,101	–	840
Disposals	–	–	–	–	(56)	(201)	–	(7,930)	(8,187)
At 31 March 2013	496,269	12,949,393	130,232	16,791	5,483	7,378	34,234	88,136	13,727,916
Exchange adjustments	**–**	**1,655**	**–**	**–**	**–**	**–**	**–**	**–**	**1,655**
Additions	**2,884**	**–**	**129,493**	**883**	**258**	**141**	**1,658**	**2,090**	**137,407**
Written off	**–**	**–**	**–**	**(4,719)**	**(9)**	**(146)**	**–**	**–**	**(4,874)**
Reclassification between categories	**4,895**	**–**	**(7,615)**	**–**	**–**	**538**	**2,182**	**–**	**–**
Disposals	**–**	**–**	**–**	**(230)**	**(22)**	**(192)**	**–**	**(160)**	**(604)**
At 31 March 2014	**504,048**	**12,951,048**	**252,110**	**12,725**	**5,710**	**7,719**	**38,074**	**90,066**	**13,861,500**
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
At 1 April 2012	162,421	3,860,949	23,224	23,149	3,600	3,874	4,511	25,245	4,106,973
Exchange adjustments	–	(5)	–	2	2	3	–	159	161
Charge for the year	4,040	9,308	–	1,072	693	1,159	1,976	16,335	34,583
Written off	–	–	–	(8,405)	(21)	(10)	–	–	(8,436)
Reversal of written off	–	–	–	–	–	–	–	547	547
Disposals	–	–	–	–	(49)	(32)	–	(5,036)	(5,117)
Impairment loss *(Note 3)*	95,088	2,617,223	25,436	–	–	–	4,540	6,839	2,749,126
At 31 March 2013	261,549	6,487,475	48,660	15,818	4,225	4,994	11,027	44,089	6,877,837
Exchange adjustments	**–**	**(10)**	**–**	**–**	**–**	**–**	**–**	**–**	**(10)**
Charge for the year	**12,024**	**–**	**–**	**1,009**	**687**	**854**	**3,629**	**13,508**	**31,711**
Written off	**–**	**–**	**–**	**(4,719)**	**–**	**–**	**–**	**–**	**(4,719)**
Disposals	**–**	**–**	**–**	**(191)**	**(22)**	**(179)**	**–**	**(107)**	**(499)**
Impairment loss *(Note 3)*	**7,432**	**208,430**	**6,561**	**–**	**–**	**–**	**732**	**856**	**224,011**
At 31 March 2014	**281,005**	**6,695,895**	**55,221**	**11,917**	**4,890**	**5,669**	**15,388**	**58,346**	**7,128,331**
CARRYING VALUE									
At 31 March 2014	**223,043**	**6,255,153**	**196,889**	**808**	**820**	**2,050**	**22,686**	**31,720**	**6,733,169**
At 31 March 2013	234,720	6,461,918	81,572	973	1,258	2,384	23,207	44,047	6,850,079

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. The Mineral Resources Authority of Mongolia (the "**MRAM**") has provided a list of licences that overlap with the Defined Prohibited Areas under the MPL.*

*As at 31 March 2014, four mining concessions (licence no. 2913A, 4322A, 11888A, and 15289A) owned by MoEnCo LLC ("**MoEnCo**") have overlapping areas described under the MPL, where mineral exploration and mining are prohibited. 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. There was also no revocation of these licences as at 31 March 2014. The management also considers that even if the licences were revoked due to the MPL, the Mongolian government would pay a reasonable compensation to the Group.*

*In addition, the Group received a letter dated 6 December 2012 from the Mining Ministry of Mongolia for requesting information of its Khushuut Coal Mine for assessment of placing the Khushuut Coal Mine into the list of deposits of strategic importance in Mongolia ("**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. 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, with the government of Mongolia entitled to participate up to 50% in the event that there has been a state funding of such deposit and up to 34% if there has not. 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. It may take the form of production or profit sharing or some other arrangement negotiated between the licence holder and the Mongolian government. In June 2013, the Mongolian government has announced that they intend to add the Khushuut Coal Mine into the list of Strategic Deposits for consideration by the Parliament of Mongolia. The Directors consider that the Khushuut Coal Mine does not fit the selection criteria outlined by the Minerals Law and the Group has issued a written objection to the Mongolian government. Subsequent to the year ended 31 March 2014, the Company has been advised by legal advisor that Khushuut Coal Mine has been removed from the proposed list of Strategic Deposits for consideration by the Mongolia Parliament.*

Hence, the management concluded that there is no further impairment, other than those set out in Note 3 relating to Khushuut Related Assets, amounting to approximately HK$224.0 million. The implementation of the MPL represents a significant uncertainty to the Group, which might have a significant effect on the consolidated financial statements of the Group. If the Group's affected mining concessions were revoked due to the MPL and the compensation received by the Group were significantly less than the carrying amount of the related assets, the Group would incur a significant impairment loss on the related assets.

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

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 useful life, whichever is appropriate

Based on the collective results of various explorations, when the technical feasibility and commercial viability of extracting mineral resources become demonstrable, the corresponding exploration and evaluation assets will be transferred to property, plant and equipment as mining structures and mineral properties.

The mining 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 mining properties are classified as property, plant and equipment.

17. PREPAID LEASE PAYMENT

The addition during the year amounts to HKD15,651,000, which represents the medium term land use right in Xinjiang. The Group is in the process of obtaining the land use right certificate.

18. INVESTMENT PROPERTY

	2014 **HK$'000**	2013 HK$'000
At beginning of the year	**124,900**	116,566
Fair value gain recognised in the consolidated statement of profit or loss	**–**	6,870
Disposals	**(128,543)**	–
Exchange adjustment	**3,643**	1,464
At end of the year	**–**	124,900

The Group's investment property held under an operating lease to earn capital appreciation is measured using the fair value model and is classified and accounted for as an investment property.

The fair value of the Group's investment property at 31 March 2013 has been arrived at on the basis of a valuation carried out on that date by Roma Appraisals Limited, an independent qualified professional valuer not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in similar locations and condition. The investment property is located in Beijing, Mainland China and is held under a lease with 53 years remaining at 31 March 2013.

During the year ended 31 March 2014, the Group disposed of the investment property to an independent third party.

19. 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 2012, 31 March 2013 and 31 March 2014	2,323	1,906,297	1,908,620
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 April 2012	1,846	578,721	580,567
Charge for the year	363	41,299	41,662
Impairment loss recognised in profit or loss *(Note 3)*	–	373,318	373,318
At 31 March 2013	2,209	993,338	995,547
Charge for the year	**110**	**31,755**	**31,865**
Impairment loss recognised in profit or loss *(Note 3)*	**–**	**28,416**	**28,416**
At 31 March 2014	**2,319**	**1,053,509**	**1,055,828**
CARRYING VALUE			
At 31 March 2014	**4**	**852,788**	**852,792**
At 31 March 2013	114	912,959	913,073

Notes:

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

*(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, the People Republic of China (the "**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.*

During 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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2014

20. DEVELOPMENT IN PROGRESS

	2014 HK$'000	2013 HK$'000
At beginning of the year	**30,449**	43,777
Transfer to Property, Plant and equipment *(Note 16)*	**–**	(840)
Impairment loss recognised in profit or loss *(Note 3)*	**(981)**	(12,488)
At end of the year	**29,468**	30,449

In connection to the exclusive right of use of paved road set out in Note 19, another section of the road of approximately 30 km is under construction and therefore remains as a development in progress and included in the cash generating unit with other Khushuut Related Assets for impairment assessment purpose.

21. EXPLORATION AND EVALUATION ASSETS

	Mining and exploration rights *(Note a)* HK$'000	**Others** *(Note b)* HK$'000	**Total** HK$'000
At 1 April 2012	285,676	13,530	299,206
Additions	–	8,666	8,666
Written off	–	(15,182)	(15,182)
At 31 March 2013	285,676	7,014	292,690
Additions	**–**	**5,616**	**5,616**
Written off *(Note c)*	**–**	**(12,630)**	**(12,630)**
At 31 March 2014	**285,676**	**–**	**285,676**

Notes

(a) *The balance of mining and exploration rights as at 31 March 2014 solely represents an exploration concession of around 2,986 hectares in Western Mongolia for ferrous resources. This iron ore exploration concession might be affected by the MPL under the preliminary list. 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 licences as at 31 March 2014. The management also considered that even if the licences were revoked due to the MPL, the Mongolian government would pay a reasonable compensation to the Group. Hence, the management concluded that there is no impairment on the corresponding exploration and evaluation assets as at 31 March 2014 amounting to approximately HK$285.7 million. The implementation of the MPL represents a significant uncertainty to the Group, which might have a significant effect on the consolidated financial statements of the Group. If the Group's iron ore exploration concession were revoked due to the MPL and the Group were paid compensation significantly less than the carrying amount of this concession, the Group would incur a significant impairment loss on the corresponding exploration and evaluation assets.*

Subsequent to the year ended 31 March 2014, the management considered to dispose of the iron ore exploration concession but no potential purchaser has been identified at the date of this report.

21. 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).

As at 31 March 2014, the Group confirmed with the Ministry of Environment and Green Department of Mongolia that 2 exploration/mining concessions are overlapping with the forest areas or water basin protection zones therefore might potentially be affected by the MPL (2013: 8). However, 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 two successive periods of 3 years each and mining licences for two successive periods of 20 years each. During the year ended 31 March 2014, the Group has written off all costs related to the licences including those mentioned in Note 21 (b) 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.

22. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

	2014 **HK$'000**	2013 HK$'000
Cost of associates		
Unlisted shares, at cost	**9,352**	9,352
Share of results	**(9,352)**	(9,352)
Less: Disposal/strike off of associates		
Unlisted shares, at cost	**(6,513)**	–
Share of results	**6,513**	–
	–	–
Amounts due from associates	**10,924**	18,025
Impairment losses	**(10,924)**	(8,755)
	–	9,270

Details of the associates at 31 March 2014 and 2013 are as follows:

Name	**Place of incorporation**	**Principal place of operation**	**Particulars of issued share capital**	**Interest held 2014**	**Interest held 2013**	**Principal activity**
Upper Easy Enterprises Limited ("**Upper Easy**")[1]	British Virgin Islands	Hong Kong	5 shares of US$1.00 each	**–**	20%	Inactive
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**")[2]	Singapore	Singapore	10 shares of S$1.00 each	**20%**	20%	Investment holding
Profit Rise International Private Limited ("**Profit Rise**")[3]	Singapore	Singapore	100 shares of S$1.00 each	**–**	20%	Investment holding

1 Upper Easy was struck off during the year.

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

3 OGCHL LLC ("**OGCHL**") is wholly owned by Profit Rise with principal activity of energy and related resources business and the Group's interest was fully disposed of during the year.

22. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES *(Continued)*

During the year ended 31 March 2014, the Group disposed of its 20% interest in Profit Rise for consideration of HK$6 (equivalent to S$1).

There is no commitment contracted but not provided for in respect of further capital investment in an associate as at 31 March 2014 (2013: Nil).

The amounts due from associates for the year ended 31 March 2014 include shareholder's loans to MoOiCo (2013: MoOiCo and OGCHL). That amount is unsecured, interest free and repayable on demand.

Aggregate information of associates that are not individually material

	2014 HK$'000	2013 HK$'000
Total assets	**929**	17,026
Total liabilities	**(37,948)**	(100,400)
Net liabilities	**(37,019)**	(83,374)
Group's share of net assets of associates	**–**	–
Revenue	**–**	–
Loss for the year	**(5,208)**	(11,387)
Other comprehensive income for the year	**5,811**	227
Total comprehensive income for the year	**603**	(11,160)
The Group's share of loss	**–**	–
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 those associates as at year end 31 March, extracted from the relevant management accounts of associates, both for the year and cumulatively, are as follows:

	2014 HK$'000	2013 HK$'000
Unrecognised share of losses of associates for the year	**(93)**	2,232
Cumulative unrecognised share of losses of an associates	**4,565**	7,323

23. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2014 HK$'000	2013 HK$'000
At beginning of the year	–	–
Addition	934	–
Less: impairment loss	(934)	–
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 2014, the Group had no capital commitments in respect of the investment.

24. PREPAYMENTS FOR EXPLORATION AND EVALUATION EXPENDITURE

The amounts represent prepayments for exploration drilling.

25. DEPOSITS FOR PROPERTY, PLANT AND EQUIPMENT

The amounts represented deposits for equipments used for wash plant.

26. TRADE RECEIVABLES

	2014 HK$'000	2013 HK$'000
Trade receivables	–	29

The Group allows a credit period of 30 days to its customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2014 HK$'000	2013 HK$'000
1–30 days	–	–
31–60 days	–	4
61–90 days	–	4
Over 90 days	–	21
	–	29

Included in the Group's trade receivable balance as at 31 March 2013 was debtors with aggregate carrying amount of HK$29,000 which are past due as at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

26. TRADE RECEIVABLES *(Continued)*

Ageing of trade receivables which are past due but not impaired:

	2014 **HK$'000**	2013 HK$'000
Overdue by:		
1–30 days	**–**	4
31–60 days	**–**	4
61–90 days	**–**	21
	–	29

Trade receivables that were past due but not provided for impairment loss related to a number of independent customers. Management believes that no impairment allowance is necessary in respect of these balances as the credit quality is reviewed periodically and the balances are still considered fully recoverable.

The carrying amount of the Group's trade receivables were denominated in MNT.

27. INVENTORIES

	2014 **HK$'000**	2013 HK$'000
Coal	**–**	4,694
Materials and supplies	**491**	489
	491	5,183

28. HELD-FOR-TRADING INVESTMENTS

	2014 **HK$'000**	2013 HK$'000
Equity securities of companies listed in Hong Kong	**56,278**	26,528

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

29. CASH AND CASH EQUIVALENTS

	2014 **HK$'000**	2013 HK$'000
Bank balances and cash	**48,566**	51,578

The weighted average effective interest rate on short-term bank deposits as at 31 March 2013 was 0.05% per annum. There was no short-term deposit placed as at 31 March 2014. Cash at bank earns interest at rates based on daily bank deposit rates.

30. TRADE PAYABLES

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

	2014 **HK$'000**	2013 HK$'000
0 to 30 days	**14,642**	6,324
31 to 60 days	**806**	852
61 to 90 days	**–**	569
Over 90 days	**52,688**	61,196
	68,136	68,941

31. CONVERTIBLE NOTES

HK$300 million 3.5% convertible note issued to Golden Infinity Co., Ltd. (the "Golden Infinity")

On 6 September 2010, the Company issued a 3.5% convertible note to Golden Infinity at a principal value of HK$300 million (the "**GI Convertible Note**"). Golden Infinity is wholly and beneficially owned by Mr. Lo. The GI Convertible Note has a maturity period of three years from the issue date to 5 September 2013 and can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$4 convertible note at the holder's option at any time between the issue date and the maturity date. Interest of 3.5% per annum will be paid annually in arrears on 6 September.

The GI Convertible Note contains two components, a debt component and a derivative component. The effective interest rate of the debt component is 11.92%. The derivative component is measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

Prior to the maturity of the GI Convertible Note on 6 September 2013, the Company initiated negotiation of the terms of refinancing with the holder, including the issue of a new convertible note to replace the GI Convertible Note. Before reaching the commercial terms of the new convertible note on a mutually acceptable basis, the holder has agreed that the outstanding balances could be extended as a short term unsecured loan on maturity date with the outstanding principal and interest due under the GI Convertible Note were being at an annual interest rate of 3.5%. The holder had granted the loan extension initially to 12 May 2014 and further extended the repayment to 13 August 2014. As such, the amount of HK$310,500,000 was reclassified as other financial liabilities (Note 32) as at 31 March 2014.

HK$2 billion zero coupon convertible note and HK$2 billion 3% convertible note issued to Chow Tai Fook Nominee Limited (the "CTF")

On 30 April 2008, the Company issued a zero coupon convertible note (the "**Zero Coupon Convertible Note**") to CTF at a total nominal value of HK$2 billion. It had a maturity period of three years from the issue date and could be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$7.3 convertible note at the holder's option subject to anti-dilutive adjustments. The Zero Coupon Convertible Note entitled the holder to convert it into ordinary shares of the Company at any time between the date of issue of the note and its maturity date on 30 April 2011 and, if it had not been converted, it would be redeemed on 30 April 2011 at par.

On 29 April 2011, the Company agreed with CTF to redeem the Zero Coupon Convertible Note by reissuance of a 3-year 3% coupon convertible note in the principal amount of HK$2 billion (the "**3% CTF Convertible Note**"). As the option of the Zero Coupon Convertible Note remained unexercised at the expiry date, the balance stated in capital reserve amounting to approximately HK$654,948,000 was released to the accumulated losses on the date of redemption. No gain or loss was recognised in the consolidated statement of profit or loss upon expiration of the option.

31. CONVERTIBLE NOTES *(Continued)*

HK$2 billion zero coupon convertible note and HK$2 billion 3% convertible note issued to Chow Tai Fook Nominee Limited (the "CTF") *(Continued)*

On 15 June 2011, the Company issued the 3% CTF Convertible Note to redeem the Zero Coupon Convertible Note and this transaction is considered as a non-cash transaction.

The 3% CTF Convertible Note has a maturity period of three years from the issue date to 16 June 2014 and can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$2 convertible note at the holder's option at any time between the issue date and the maturity date subject to anti-dilutive adjustments. Interest of 3% per annum will be paid up until the settlement date.

On 16 June 2014, CTF has agreed to grant the Company a moratorium on repayment of the outstanding principal and interest under the 3% CTF Convertible Note to 13 August 2014 subject to the validity of the similar moratorium granted by the holders of the OZ Convertible Note and GI Convertible Note.

The 3% CTF Convertible Note contains two components, a debt component and a conversion option derivative. The effective interest rate of the debt component is 16.21%. The conversion option derivative is measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

HK$466.8 million 3.5% convertible note

On 3 November 2010, the Company entered into a subscription agreement with Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited (the "**Subscriber**") under which the Subscriber has conditionally agreed to (i) subscribe for a 3.5% unsecured convertible note in the principal amount of HK$466.8 million (the "**First Note**") and (ii) accept an option exercisable within six months of the issue of the First Note to subscribe for a further convertible note in the principal amount of HK$311.2 million (the "**Second Note**"). Both the First Note and Second Note have a maturity period of three years from the issue date. The subscription of the First Note was completed on 12 November 2010 while the option on the Second Note was not exercised. The First Note can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$2.68 per Company's share being adjusted conversion price as a result of issuance of 5% convertible notes with principal amount of HK$400,000,000 on 8 January 2013 pursuant to the terms and conditions of the OZ Convertible Note. Interest of 3.5% per annum will be paid annually in arrears on 3 November for the First Note.

The First Note contains two components, a debt component and a derivative component. The effective interest rate of the debt component is 14.38%. The derivative component is measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

The OZ Convertible Note matured on 12 November 2013 and the Company has not redeemed the principal and repaid the interest thereon on its maturity, therefore, the Company is in breach of the redemption requirement under the OZ Convertible Note. An agreement was entered into between the Company and the holders of the OZ Convertible Note on 15 November 2013 to forbear from taking any legal action to enforce the Company's obligation to repay the principals and interests due under the OZ Convertible Note until 12 May 2014. On 13 May 2014, the second agreement was entered into between the Company and the holders of the OZ Convertible Note to further extend the repayment date to 13 August 2014. The outstanding principal and interest was reclassified as other financial liabilities (Note 32) as at 31 March 2014.

The Company's default on redemption of the OZ Convertible Note also triggers the Company's potential early redemption obligation under other existing convertible notes. The Company will exercise its endeavour to reach an acceptable debt restructuring plan with all the convertible note holders and other loan providers. If the Company fails to reach the terms of the debt restructuring with the holders of the convertible note and other loan providers and they take enforcement action against the Company, material adverse impact may occur on the operations and financial position of the Group.

31. CONVERTIBLE NOTES *(Continued)*

HK$400 million 5% convertible note issued to Golden Infinity and CTF

On 8 January 2013, the Company issued a 5% convertible note to each of Golden Infinity and CTF with principal amount of HK$200 million and in aggregate of HK$400 million (the "**5% GI & CTF Convertible Note**"). The 5% GI & CTF Convertible Note has a maturity period of three years from the issue date to 8 January 2016 and can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$0.36 convertible note at the holder's option at any time between the issue date and the maturity date. Interest of 5% per annum will be paid annually in arrears on 8 January.

The 5% GI & CTF Convertible Note contains two components, a debt component and a conversion option derivative. The effective interest rate of the debt component is 18.22%. The derivative component is measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

Remeasurement of debt components of 3% CTF Convertible Note and 5% GI & CTF Convertible Note

As the Company's default on redemption of the OZ Convertible Note also triggers the Company's early redemption obligation under existing convertible notes, the 3% CTF Convertible Note and 5% GI & CTF Convertible Note have been remeasured to their redemption amount. As at 31 March 2014, these convertible notes are presented as current liabilities in the consolidated statement of financial position.

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

	Debt component		**Derivative component**		**Total**	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
At beginning of the year	**2,851,129**	2,233,466	**96,811**	285,208	**2,947,940**	2,518,674
Initial recognition	**–**	284,715	**–**	114,590	**–**	399,305
Interest charge	**264,716**	353,717	**–**	–	**264,716**	353,717
Interest payable included in other payable	**(145,151)**	–	**–**	–	**(145,151)**	–
Amortisation of transaction costs	**3,233**	6,053	**–**	–	**3,233**	6,053
Fair value gain on derivative component	**–**	–	**(42,392)**	(302,987)	**(42,392)**	(302,987)
Interest paid	**–**	(26,822)	**–**	–	**–**	(26,822)
Reclassified as other financial liabilities *(Note 32)*	**(793,638)**	–	**–**	–	**(793,638)**	–
Loss on remeasurement of the debt component	**219,827**	–	**–**	–	**219,827**	–
At end of the year	**2,400,116**	2,851,129	**54,419**	96,811	**2,454,535**	2,947,940

Analysed for reporting purposes as:

	2014 HK$'000	2013 HK$'000
Current liabilities	**2,454,535**	741,279
Non-current liabilities	**–**	2,206,661
	2,454,535	2,947,940

31. CONVERTIBLE NOTES *(Continued)*

GI Convertible Note

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

	6 September 2010	**31 March 2013**
Stock price	HK$3.06	**HK$0.31**
Exercise price	HK$4.00	**HK$4.00**
Volatility *(Note)*	55%	**105%**
Dividend yield	0%	**0%**
Option life	3 years	**0.44 years**
Risk free rate	0.54%	**0.07%**

Note:

The volatility used in the model was determined by using the historical volatility of the Company's share price.

The fair value of GI Convertible Note with embedded derivatives were determined with reference to a valuation report carried out by an Independent Valuer, on issue date at approximately HK$300,000,000. As at 31 March 2013, the debt component of the convertible note is HK$294,657,000 and the fair value of the derivative component of the convertible note is HK$2,000.

OZ Convertible Note

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

	3 November 2010	**31 March 2013**
Stock price	HK$2.91	**HK$0.31**
Exercise price	HK$3.40	**HK$2.68**
Volatility *(Note)*	88%	**105%**
Dividend yield	0%	**0%**
Option life	3 years	**0.62 years**
Risk free rate	0.60%	**0.12%**

Note:

The volatility used in the model was determined by using the historical volatility of the Company's share price.

The fair value of OZ Convertible Note with embedded derivatives were determined with reference to a valuation report carried out by the Independent Valuer, on issue date at approximately HK$466,800,000. As at 31 March 2013, the debt component of the convertible note was HK$441,940,000 and the fair value of the derivative component of the convertible note was HK$187,000. No conversion was noted during the year ended 31 March 2014.

31. CONVERTIBLE NOTES *(Continued)*

3% CTF Convertible Note

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

	15 June 2011	31 March 2013	**31 March 2014**
Stock price	HK$1.22	HK$0.31	**HK$0.22**
Exercise price	HK$2.00	HK$2.00	**HK$2.00**
Volatility *(Note a)*	94%	105%	**110%**
Dividend yield	0%	0%	**0%**
Option life *(Note b)*	3 years	1.21years	**0.21 years**
Risk free rate	0.69%	0.15%	**0.13%**

Note:

a. The volatility used in the model was determined by using the historical volatility of the Company's share price.

b. The option life as at 31 March 2014 is based on the maturity date of the notes and assume no early redemption.

The fair value of the 3% CTF Convertible Note with embedded derivatives were determined with reference to a valuation report carried out by an independent qualified professional valuer, on issue date at approximately HK$2,000,000,000. As at 31 March 2014, the debt component of the convertible note is HK$2,000,000,000 (2013: HK$1,818,827,000) and the fair value of the derivative component of the convertible note is HK$1,000 (2013: HK$20,479,000). No conversion was noted during the year ended 31 March 2014.

5% GI & CTF Convertible Note

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

	9 January 2013	31 March 2013	**31 March 2014**
Stock price	HK$0.48	HK$0.31	**HK$0.22**
Exercise price	HK$0.36	HK$0.36	**HK$0.36**
Volatility *(Note a)*	59.57%	60%	**72.77%**
Dividend yield	0%	0%	**0%**
Option life *(Note b)*	3 years	2.78 years	**1.78 years**
Risk free rate	0.18%	0.26%	**0.39%**

Note:

a. The volatility used in the model was determined by using the historical volatility of the Company's share price.

b. The option life as at 31 March 2014 is based on the maturity date of the notes and assume no early redemption.

The fair value of the 5% GI & CTF Convertible Note with embedded derivatives were determined with reference to a valuation report carried out by the Independent Valuer, on issue date at approximately HK$400,000,000. As at 31 March 2014, the debt component of the convertible note is HK$400,000,000 (2013: HK$295,705,000) and the fair value of the derivative component of the convertible note is HK$54,418,000 (2013: HK$76,143,000). No conversion was noted during the year ended 31 March 2014.

32. OTHER FINANCIAL LIABILITIES

As at 31 March 2014, included in other financial liabilities are the GI Convertible Note of HK$316.6 million which was reclassified from convertible notes to other financial liabilities on its maturity (Note 31). The loan is unsecured, bears interest at a fixed rate of 3.5% per annum and is repayable on 12 August 2014.

In addition, included in other financial liabilities are the OZ Convertible Note of HK$489.4 million which was due on 12 November 2013 and its maturity date was extended to a period of six months until 12 May 2014 (Note 31) with at a fixed interest rate of 3.5% per annum. The maturity date of the OZ Convertible Note is further extended to 12 August 2014.

33. DEFERRED INCOME

During the year, the Group received a government grant amounting to HKD12,665,000 (equivalent to approximately RMB10.1 million) from the PRC government for the construction of the washing plant in Xinjiang, PRC.

34. DEFERRED TAXATION

The following is an analysis of the deferred tax balances for financial reporting purposes:

	HK$'000
At 1 April 2012	7,385
Charged to the consolidated statement of profit or loss	(7,385)
At 31 March 2013 and 31 March 2014	–

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 2014, estimated tax losses of the Group not utilised amounted to HK$584,015,000 (2013: HK$544,591,000). 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$465,296,000 (2013: HK$437,636,000) expiring within 5 years, the remaining balances have no expiry date.

At the end of the reporting period, the Group has deductible temporary differences of HK$1,379,408,000 (2013: HK$1,315,091,000) due to the impairment loss recognised on Khushuut Related assets and HK$113,367,000 (2013: HK$109,233,000) 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.

35. SHARE CAPITAL

Authorised and issued share capital

	2014	2013
	HK$'000	HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.02 each	**300,000**	300,000

	Number of ordinary shares at HK$0.02 each	**Amount**
		HK$'000
Issued and fully paid:		
At 1 April 2012, 31 March 2013 and 31 March 2014	**6,756,547,828**	**135,131**

36. 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 was expired and terminated on 27 August 2012.

Under the share option granted, 20,000,000 share options are granted to consultants of the Group. As the fair value of the services cannot be estimated reliability, the Binominal 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:

	2014		2013	
	Weighted average exercise price per share	**Number of share options**	Weighted average exercise price per share	Number of share options
	HK$		HK$	
Exercisable at beginning of the year	**1.3886**	**67,300,000**	1.3886	67,300,000
Granted	**0.3200**	**66,500,000**	–	–
Lapsed	**0.3200**	**(1,000,000)**	–	–
Exercisable at end of the year	**0.8615**	**132,800,000**	1.3886	67,300,000

No share options were exercised during the year (2013: Nil).

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

36. 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:

Date of grant	Exercise price HK$	Exercisable period	Number of shares subject to options 2014	2013
9-4-2010	4.110	9-4-2010 to 8-4-2015	**11,800,000**	11,800,000
1-9-2011	0.810	1-9-2011 to 31-8-2014	**5,000,000**	5,000,000
29-2-2012	0.810	29-2-2012 to 28-2-2017	**50,500,000**	50,500,000
8-4-2013	0.320	8-4-2013 to 7-4-2018	**65,500,000**	–
			132,800,000	67,300,000

The fair values of options granted determined were as follow:

	9 April 2010	1 September 2011	29 February 2012	8 April 2013
Option value (at grant date)	HK$23,413,555	HK$1,723,781	HK$20,844,931	HK$13,417,593
Fair value per option (at grant date)	HK$1.984	HK$0.3448	HK$0.4128	HK$0.2018
Significant inputs into the valuation model:				
Exercise price at grant date	HK$4.11	HK$0.81	HK$0.81	HK$0.32
Share price at grant date	HK$4.11	HK$0.81	HK$0.81	HK$0.31
Expected volatility *(Note)*	113.46%	86.36%	91.74%	84.18%
Risk-free interest rate	2.008%	0.315%	0.52%	0.44%
Life of options	5 years	3 years	5 years	5 years
Expected dividend yield	0%	0%	0%	0%
Valuation model applied	Trinomial	Trinomial	Binomial	Binomial

Note:

The expected volatility is measured at the standard deviation of the expected share price return and is based on statistical analysis of daily share prices over 2 years before the respective dates of grant.

The Group recognised a total expense of HK$13,418,000 for the year ended 31 March 2014 (2013: Nil) in relation to share options granted by the Company.

37. COMMITMENTS

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

(a) Commitments under operating leases

As at 31 March 2014, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of offices and staff quarters as follows:

	2014 HK$'000	2013 HK$'000
Not later than one year	**7,766**	6,078
Later than one year and not later than five years	**2,555**	166
	10,321	6,244

Operating leases related to offices and staff quarters with lease terms of between 1 to 5 years (2013: 1 to 5 years).

(b) Capital commitments

As at 31 March 2014, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to approximately HK$100,083,000 (2013: HK$83,771,000). These commitments are for the following projects:

	2014 HK$'000	2013 HK$'000
Dry processing	**4,065**	12,665
Exploration drilling	**24,105**	23,706
Other exploration related commitments	**277**	753
Power plant design	**–**	856
Purchase of property, plant and equipment	**7,539**	785
Road construction	**14,115**	29,025
Road improvement and drilling equipment transport	**11,968**	11,771
Wash plant	**37,521**	3,851
Others	**493**	359
	100,083	83,771

38. CONTINGENT LIABILITIES

During the year ended 31 March 2013, the Company and MoEnCo disputed the scope of 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 of which approximately HK$50.0 million (2013: HK$50.0 million) has been provided for in the consolidated financial statements as at 31 March 2014. Based on the opinion provided by legal counsel of the Company, the Directors consider that the payment of the remaining balance is not probable. During the year ended 31 March 2014, the former sole mining contractor has proposed a meditation proceeding with the Company, up to the date of approving this consolidated financial statements, the choice of the mediator and the venue are still under negotiation.

39. RELATED PARTY TRANSACTIONS

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

(a) Advances from Mr. Lo

	2014 **HK$'000**	2013 HK$'000
Balance of advances	**780,210**	470,013
Interest charge for the year	**46,956**	33,499

Note:

The advances are related to the facility granted from Mr. Lo as set out in Note 1. The amounts are unsecured and repayable on demand. The interest expense was charged at the Prime Rate plus 3% starting from 1 November 2012 (prior to 1 November 2012: Prime Rate).

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

	2014 **HK$'000**	2013 HK$'000
Convertible notes payable	**227,267**	480,582
Other loan	**316,633**	–
Interest charge on convertible note for the year	**20,500**	12,747
Interest charge on other loan for the year	**6,133**	–

Note:

Mr. Lo has a controlling interest in Golden Infinity. Details of the GI Convertible Note, 5% GI & CTF Convertible Note and other loan due to Golden Infinity are set out in Note 31 and Note 32.

(c) Key management compensation

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

	2014 **HK$'000**	2013 HK$'000
Basic salaries, other allowances and benefits in kind	**5,369**	6,238
Equity-settled share-based payments	**4,440**	–
Contributions to MPF Scheme	**15**	15
	9,824	6,253

Note:

During the year ended 31 March 2014, 22,000,000 share options were granted to the Group's directors (2013: Nil). Such options were immediately vested on date of grant. The fair values of the total options determined at the date of grant were using the Binomial Valuation model.

40. MAJOR NON-CASH TRANSACTIONS

Apart from the non-cash transactions disclosed in Notes 31 and 32, the Group has no other material non-cash transactions for both years.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 March 2014 and 2013:

Name of subsidiaries	Place of incorporation/ establishment	Particulars of issued share capital/ registered capital	Effective interest held		Place of operation	Principal activities
			2014	2013		
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 of HK$1.00 each	**100%**	100%	Hong Kong	Management services
Virtue Team Investments Limited*	Hong Kong	1 share of HK$1.00	**100%**	100%	Hong Kong	Management services
Mongolia Energy Corporation Services Limited*	Hong Kong	2 shares of HK$1.00 each	**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	PRC	RMB11,927,724	**100%**	100%	PRC	Provision of mining and exploration advisory service
新疆蒙科能源科技有限公司	PRC	RMB135,982,967	**100%**	100%	PRC	Trading of coal and operation of wash plant

* *Subsidiaries directly held by the Company*

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.

42. 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$20,000 per month and revised to HK$25,000 per month starting from 1 June 2012. 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 Mainland China 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.

Financial Information of the Company

Statement of Financial Position

	2014 **HK$'000**	2013 HK$'000
Assets		
Unlisted investments in subsidiaries	**285,730**	285,730
Amounts due from subsidiaries	**1,496,535**	1,497,102
Other assets	**6,244,750**	6,461,951
Total assets	**8,027,015**	8,244,783
Liabilities		
Amounts due to subsidiaries	**205,434**	214,769
Other liabilities	**4,276,707**	3,513,316
Total liabilities	**4,482,141**	3,728,085
Net assets	**3,544,874**	4,516,698
Financed by:		
Equity		
Capital and reserves attributable to owners of the Company		
Share capital	**135,131**	135,131
Reserves	**3,409,743**	4,381,567
	3,544,874	4,516,698

Reserves

	Share premium HK$'000	**Contributed surplus** *(Note)* HK$'000	**Share options reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
Balance at 1 April 2012	13,107,506	199,594	62,037	(5,214,031)	8,155,106
Loss for the year	–	–	–	(3,773,539)	(3,773,539)
Balance at 31 March 2013	13,107,506	199,594	62,037	(8,987,570)	4,381,567
Loss for the year	**–**	**–**	**–**	**(985,242)**	**(985,242)**
Equity-settled share-based payments	**–**	**–**	**13,418**	**–**	**13,418**
Share option lapsed	**–**	**–**	**(16,257)**	**16,257**	**–**
Balance at 31 March 2014	**13,107,506**	**199,594**	**59,198**	**(9,956,555)**	**3,409,743**

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.

Five Years Summary of Results, Assets and Liabilities

Results of the Group for the year ended March 31

	2010 HK$'000	2011 HK$'000	2012 HK$'000	2013 HK$'000	**2014** **HK$'000**
Turnover					
Continuing operations	–	–	6,215	11,792	**498**
Discontinued operation	2,392	–	–	–	**–**
Loss attributable to owners of the Company	(317,405)	(310,750)	(4,832,172)	(3,698,818)	**(1,038,124)**
Loss per share (HK cents)					
– Basic	(5.22)	(5.02)	(73.04)	(54.74)	**(15.36)**
– Diluted	(5.22)	(5.02)	(73.04)	(54.74)	**(15.36)**

Assets and liabilities of the Group at March 31

	2010 HK$'000	2011 HK$'000	2012 HK$'000	2013 HK$'000	**2014** **HK$'000**
Total assets	15,169,958	15,907,265	11,543,781	8,336,858	**8,056,158**
Less: total liabilities	(2,020,980)	(2,833,106)	(3,198,467)	(3,690,756)	**(4,428,111)**
Total net assets	13,148,978	13,074,159	8,345,314	4,646,102	**3,628,047**

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

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR

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中文譯本

本年報之中文譯本可向蒙古能源有限公司索取。
中英文版本內容如有歧異，概以英文版本作準。

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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