MEC

MONGOLIA ENERGY CORPORATION

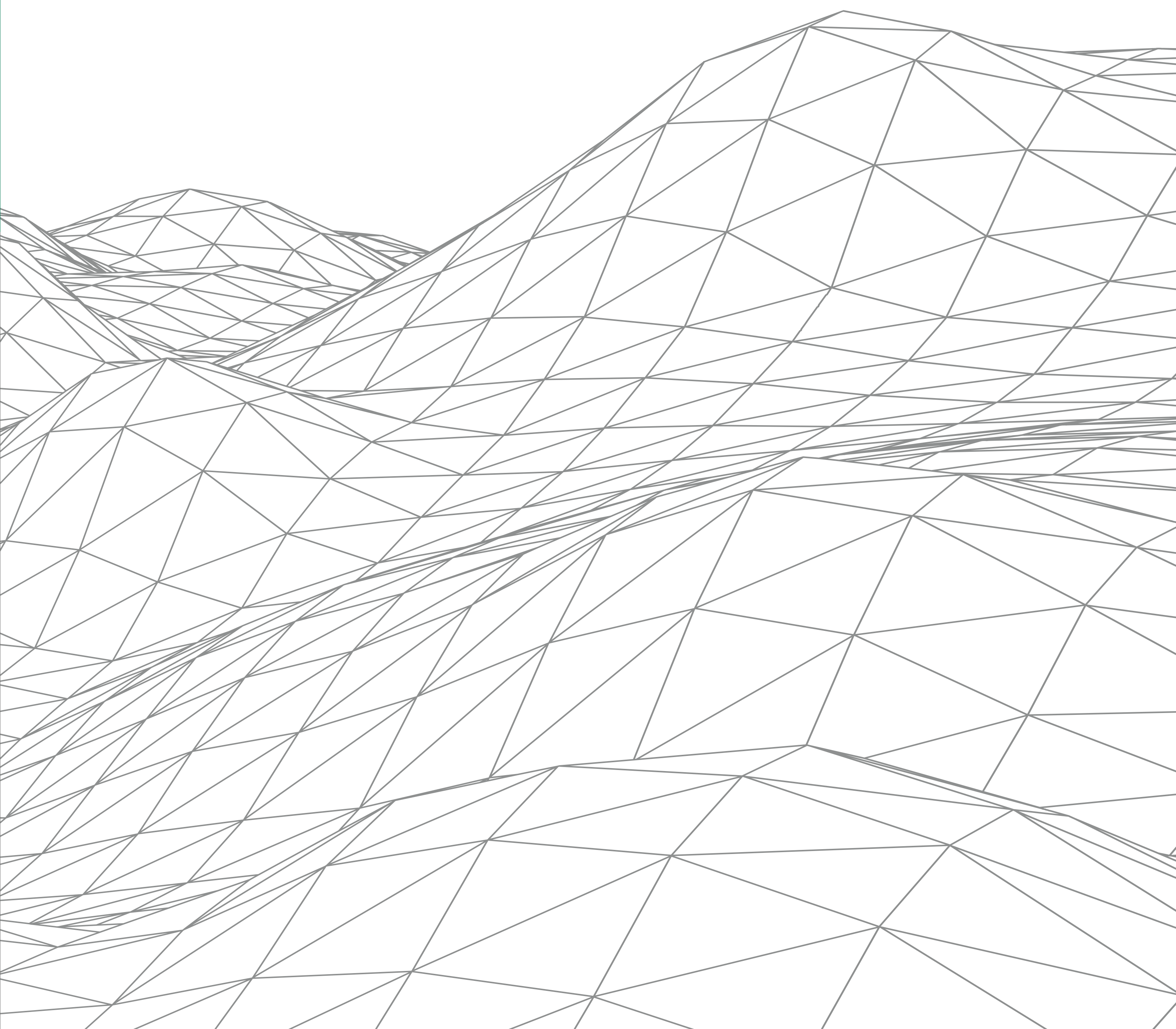
蒙 古 能 源 有 限 公 司

Incorporated in Bermuda with limited liability

Stock Code: 276

Energy Resources Developer

Annual Report 2015



CAUTION REGARDING FORWARD-LOOKING STATEMENTS

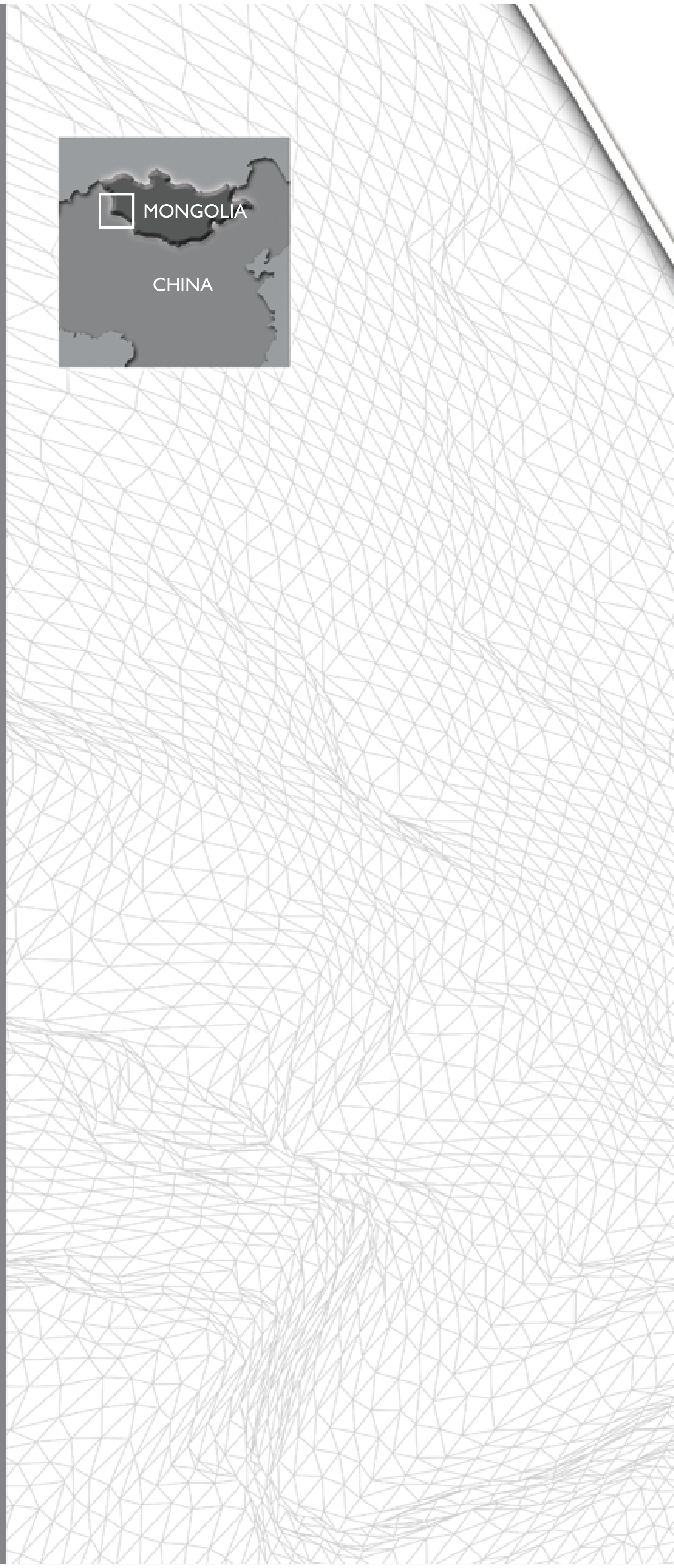
This Report contains certain forward-looking statements and opinions with respect to the operations and businesses of MEC. These forward-looking statements and opinions relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and are generally 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 information from other sources which MEC believes to be reliable. Our actual results may be materially less favourable than those expressed or implied by these forward-looking statements and opinions which could affect the market price of our shares. You should also read the risk factors set out under our circulars, announcements, and reports for each of the transactions, which are deemed incorporated and form part of this Report 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, MEC does not undertake to update any forward-looking statements or opinions contained in this Report.

CONTENTS


The Khushuut
Coal Mine
in Khovd,
Mongolia

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)



Khushuut Coal Mine

Local road, Uyench canyon

Local road, Bodonch road

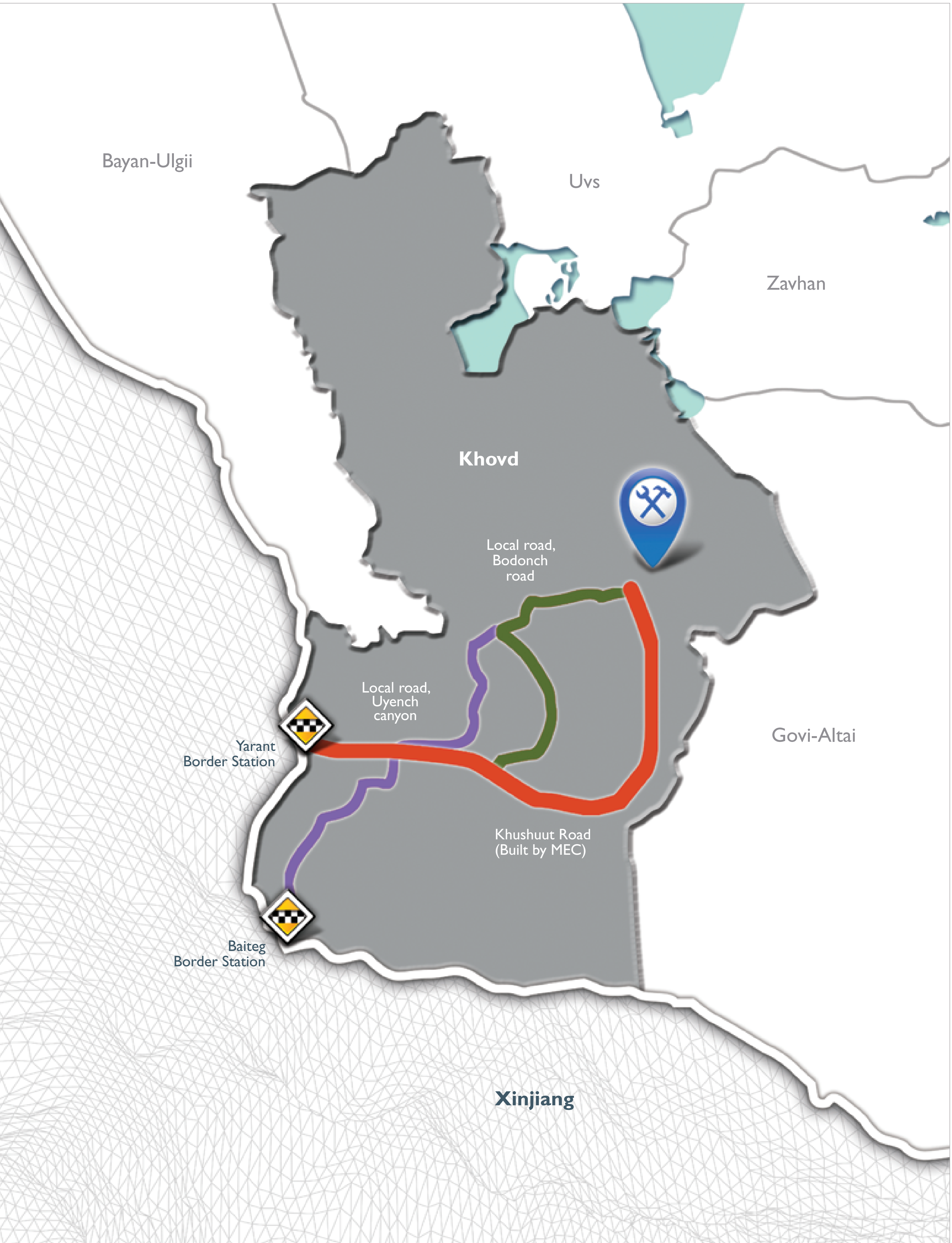
Khushuut Road (Built by MEC)

Border station

Country boundary

Province boundary

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

Chairman's Statement

Dear Shareholders,

This Financial Year was a mixed year for the Company. The coking coal market in China had shown signs of stability but only for a short period of time. After years of preparation of our coal processing facilities both in Khushuut and Xinjiang, the constructions were finally completed and put into operation by the end of 2014. These also marked our commercial export after a long halt. However, the overall coal market remained weak due to oversupply and slashed demand.

Export of coking coal was started relatively late in this Financial Year, and after completing a series of quality and specification tests, we sold approximately 16,000 tonnes of clean coking coal to our customer in China. Although our coal specifications and quality met our customer's needs and expectations, the weak selling prices made it unprofitable to continue shipping out coking coal incrementally. In the first quarter of 2015, over 50% of the listed companies in China under the coal industry were making loss. We anticipate that the gloomy trend will continue and the coking coal prices in China will remain weak throughout the remainder of 2015. In short term, the likelihood of a rebound in price and demand of coal is not optimistic. Seeing the unfavourable market conditions, our priority tasks for the coming year will be shifted to preserve the working capital and reduce the costs and expenses of our operation. We adopted tight austerity measures during this Financial Year including relocation of our Hong Kong office and termination of the overburden removal services. The measures taken are to respond to the oversupply of coal in China and reduce the need to push production in light of the sluggish market conditions.

With the termination of the contractual overburden removal services, production will inevitably be affected. Our coming scale of production will be relatively low and adjustments to our mine planning are anticipated from time to time in response to the ever-changing market conditions. We will closely monitor the market developments to adjust our operation strategy in response during this period.

During the Financial Year, we had successfully closed the issue of the convertible notes with our convertible notes holders in the total principal amount of HK$3.46 billion. The notes will be repaid in five years from the date of issue. We are much obliged for the unwavering support and faith on us from our noteholders.

Notwithstanding the severe short term prospects generally, the nations' economic and diplomatic policies shed light on the long term developments when the Chinese government announced the adoption of "One Belt, One Road" in the first quarter of 2015. The policy will promote the economic co-operation between China and the countries along the region, and will bring about the increase of infrastructure projects which ultimately increase the demand of steel. We anticipate the coking coal demand will gradually pick up again. On the other hand, the Mongolian government is also doing its best to stabilize its weak economy by adopting favourable policies to attract foreign and domestic investments. We anticipate more positive policies on the road to stimulate the economy and its mining industry.

Despite the present difficulties, our working teams have overcome all the challenges during this period. The persistent and tireless efforts of our colleagues and your invaluable support are the most precious drivers leading us forward.

We sincerely appreciate and look forward to your continuous support.

Lo Lin Shing, Simon
Chairman

22 June 2015

Management Discussion and Analysis

RESULTS ANALYSIS

Revenue

The Group sold approximately 16,000 tonnes of clean coal to our customers in Xinjiang, China. The total revenue was HK$12.3 million (2014: HK$0.5 million). The average selling price of clean coal was HK$762 per tonne.

Cost of Sales

At the end of the Financial Year, the costs of inventory were lower than the net realizable value by HK$65.9 million (2014: HK$4.1 million). Therefore, the difference was charged to the costs of sales. The costs of sales related to the revenue was divided into cash costs of HK$20.1 million and non-cash costs of HK$8.5 million.

Other Gains and Losses

Following the successful installation of dry coal processing plant in Khushuut, several screening and other equipment became obsolete. A total of HK$39.4 million was written off during the Financial Year.

Administrative Expenses

Administrative expenses included the following major items:

(1) Staff costs of HK$58.6 million (2014: HK$72.9 million). No share option was granted during the Financial Year, therefore, no corresponding equity-settled share based payment expense was recognized (2014: 13.4 million);

(2) Legal and professional fees of HK$16.9 million (2014: HK$22.3 million); and

(3) Rental and utilities expenses of HK$13.7 million (2014: HK$21.8 million).

Fair Value Gain on Derivative Component of Convertible Notes

The convertible notes issued by the Company during the Financial Year (the "**2014 Convertible Notes**") contain both debt and conversion option components. At the date of issue (i.e. 21 November 2014), both the debt and conversion option components were recognized at fair value. The derivative component of 2014 Convertible Notes requires re-measurement at the end of each reporting period and a resulting gain in fair value amounting to HK$736.1 million was then recognized in the Financial Year.

Impairment Loss recognized on Khushuut Mine Related Assets ("Mine Assets")

Under the Company's accounting policies, the Company is required to assess the carrying value of the Mine Assets at the end of each financial period/year. If the recoverable amount of the Mine Assets as determined by an independent valuer is significantly lower than their carrying value, an impairment loss may incur.

An impairment review was undertaken by engaging an independent valuer to prepare a valuation report for the Financial Year. Same as previous periods, the independent valuer adopted a value-in-use approach to assess the fair value of the Mine Assets as at 31 March 2015. The major changes to previous valuation model as at 31 March 2015 were:

(1) The discount rate was 17.4% (2014: 18.5%);

(2) Estimated current selling price for washed product at around US$94 per tonne (2014: US$136 per tonne). The stringent coking coal market conditions in PRC accounted for the sharp decline in selling price; and

(3) Estimated production costs were updated based on the latest information.

The recoverable amount of the Mine Assets is based on value-in-use, determined by discounting the future cash flows generated from the continuing use of the Khushuut Coal Mine. The key assumptions used in the estimation of value-in-use include coal prices, operating costs, sales quantity/production volume, growth rate and discount rate.

Coking coal is a vital ingredient in the steel making process. The steel demand continues to slow down considerably in the PRC due to the cooling down in infrastructure and real estate investments. This causes the slash in demand of steel-related raw materials such as iron ore and coking coal. Hence, the stringent coking coal market conditions in the PRC accounted for the sharp decline in the coking coal price. The fall in the coking coal price during the Financial Year had a substantial negative impact on the assessment of impairment review during this period.

The discount rate adopted in the value-in-use model is derived from the Group's weighted average cost of capital ("**WACC**") with appropriate adjustments made to reflect the risks specific to the Khushuut Coking Coal Project. The WACC takes into account both debt and equity, and weighted based on the Group's and comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors and based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of comparable peer companies. The discount rate of 17.4% (2014: 18.5%) was applied in the value-in-use model. The change of discount rate from last year was a combined result of the updates on the WACC including the risk-free rate and other risk premium factors. The risk-free rate adopted was the yield of China 10-year government land as at the date of valuation. The risk premium factors were to reflect the business risks of the Khushuut Coal Mine.

In the value-in-use model, production costs assumptions are based on the management's best estimation of the costs to be incurred at the date of impairment testing i.e. 31 March 2015. Production costs were determined after considering existing operating costs, future costs expectations, as well as the nature and location of the Khushuut Coking Coal Project.

Estimated growth rate of 3.04% (2014: 2.86%) had been applied to prices and operating costs in the valuation model of the Khushuut Coking Coal Project to reflect anticipated inflation in the PRC market throughout the mine life. It was derived from an average of China inflation over past five years.

The above were the principal factors affecting the outcome of the impairment assessment on the Mine Assets during the Financial Year.

As the recoverable amount of the Mine Assets determined by the independent valuer was significantly lower than their carrying amounts, an impairment loss amounted to HK$6.8 billion (2014: HK$0.3 billion) was recognized against the respective assets on a pro-rata basis. Such impairment loss is non-cash in nature and will not affect our liquidity, cash flows or debt covenants, nor will it have any impact on future operations.

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 valuation model based on the current best available information. However, it is possible that the underlying estimates/assumptions can be changed significantly and further impairment charges/reversal of charges may be required in future period.

Finance Costs

The Company's default on redemption of the 3.5% OZ Convertible Note in November 2013 triggered the Company's early redemption obligation under the 3% CTF Convertible Note and 5% GI & CTF Convertible Notes. Accordingly, these convertible notes had been re-measured to their redemption amount in November 2013 and thereafter all related interest costs were being charged at respective coupon rates instead of respective effective interest rates (in the range of 14.38% to 18.22%) until their full repayment in November 2014 by the 2014 Convertible Notes. This accounted for the drop in finance costs during the Financial Year.

MARKET REVIEW

The principal market for our coal products is the People's Republic of China ("**China**" or the "**PRC**").

China maintained a 7.4% growth in its gross domestic product (GDP) in 2014 amid the complicated and volatile international environment. It was lower than the growth comparing to that of 2013 which was at 7.7%. However, it was better than the median forecast of 7.3% in an Association for Financial Professionals (AFP) survey of 15 economists. According to the National Bureau of Statistics of China (NBS), China's economy has achieved stable progress with improved quality under the new normal in 2014.

As the top producer and importer of coal in the globe, China continues to play a leading role in production and consumption of coal. Its move has significant impact on coal prices. Due to oversupply and diminished demand, and the policy introduced to decrease coal consumption, the coal industry was one of the hardest-hit sectors in China last year. Coal price in general continued to shrink year-on-year. According to data from the NBS, China's coal mining and washing industry posted a 52.2% year-on-year slump in profit from core businesses to RMB109.03 billion last year. In the first quarter of 2015, the coal mining and washing industry posted a year-on-year slump of 61.9% in profit to RMB12.2 billion. This indicated a further deterioration in this sector. The sharp fall in profit was mainly impacted by falling prices amid bearish demand from downstream sectors and an excess of supply.

The NBS stated that coal output in China dropped 2.5% from the previous year to 3.87 billion tonnes in 2014. In the first quarter of 2015, China produced 850 million tonnes of coal, down 3.5% year-on-year according to the China National Coal Association.

In relation to coking coal imports, the China General Administration of Customs' data released in April 2015 showed that China's coking coal imports fell 21% year-on-year in 2014. In the first quarter of 2015, China's coking coal imports decreased 16% year-on-year to 10.92 million tonnes. However, the stimulating data was that Mongolia's export of coking coal to China rose 28.3% year-on-year in 2014. Mongolia remains the second largest supplier of coal in China.

On the contrary, China's total coking coal exports in the first quarter of 2015 were 319,688 tonnes, surging 85.5% year-on-year. This was resulted from the weak internal market in China and many coking coal producers turned to maintain their liquidity. The policy of China to encourage coal export by reducing its unprocessed coal export tariffs from 10% to 3% in 2015 was also a contributing factor.

As many coking coal producers are suffering loss, in response to this stricken market condition, most are under production cuts to reduce their loss and preserve their liquidity. Seeing the gloomy weather hovering and the unlikelihood of rebound in short term, we deployed an austerity policy in an effort to preserve liquidity to maintain our operations.

On 28 March 2015, the National Development and Reform Commission outlined the key details of the new economic plan "One Belt, One Road (also known as the Belt and Road Initiatives)". It is a Chinese framework of organizing multinational economic development primarily in Eurasia through two main components, the "Silk Road Economic Belt" and the "21st Century Maritime Silk Route Economic Belt". This initiative will likely to have important effects on the regions along "One Belt, One Road" and to promote the economic co-operation between China and the countries along the regions. Infrastructure developments will play a key role, and it is hoped that this can make use of China's enormous industrial overcapacity and ease the entry of the Chinese goods into regional markets.

Successful implementation of the initiative could help deepen regional economic integration, boost cross-border trade and financial flows between Eurasian countries and the outside world. In mid to long term, when the infrastructure projects are on progress, we anticipate the demand of steel will surge and the coking coal market will take a favourable turn.

BUSINESS REVIEW

Coal Sales

We resumed commercial export of coking coal by the end of 2014. As we started late in this Financial Year, approximately 16,000 tonnes of clean coking coal (after washing) were sold to our customer in Xinjiang, PRC in this period.

Apart from the clean coking coal, we supplied approximately 18,990 tonnes of thermal coal to the local community in Mongolia during the Financial Year.

Coal production

We appointed an overburden removal contractor in April 2014 and a coal extraction contractor in July 2014 to prepare for our coal production by the end of 2014. The overburden removal contractor is principally required to provide blasting, removal of topsoil and overburden covering the coal to be extracted for the subsequent coal mining to take place. The principal job of the coal extraction contractor is to provide coal extraction services after the coal seam is exposed.

The quantity of overburden removal conducted by the contractor was approximately 3,754,000 bank cubic meters (BCM) during the Financial Year. Production of thermal coal and raw coking coal were approximately 725,000 tonnes and 198,000 tonnes respectively.

Apart from the field work contractors, we hired external coal trucking companies with a total of over 120 heavy-duty trucks to provide coal transportation services for our coal export. Approximately 39,500 tonnes of raw cooking coal were exported during the Financial Year.

Pursuant to the co-operation agreement entered in 2014, we have a corporate responsibility to support the local economic and its social developments. Therefore, we are under an obligation to supply domestic coal to the local community in the vicinity of our mine site. Our coal is important to the people in the nearby districts for their daily use, in particular, to relieve the local people hardship during winter season.

Coal Processing Infrastructures

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

Due to environmental issue, there is insufficient water source nearby our mine site for coal-wash processing. Hence, we built the DPP in Khushuut for initial coal processing before export. This could eliminate the unwanted rubbles and other materials to enhance the quality of our raw coking coal for export purpose, and also reduce our transportation costs. The processed coking coal will then be washed by our coal washing plant and sold as clean coking coal to our customer.

The building of the DPP commenced in 2013 and the infrastructure was completed in early 2014. After the installation of power generation system in May 2014, we began a series of test runs subsequently. The formal commissioning approval in respect of the DPP was given by the State Specialized Inspection Authority of Mongolia (SSIA) in September 2014. The remaining ancillary work was the building of a dust and wind protection wall around the DPP. The purpose of the dust and wind protection wall is to control the wind flow around the coal yard so that the amount of airborne dust is reduced during coal processing. It is 12-meter tall, around 1,160-meter long, and built around three sides of the DPP in Khushuut. The erection of the dust and wind protection wall was completed in November 2014. We have engaged an environmental consultant to continue providing environmental protection advice to us on our coal production process.

The coal washing plant is 15.5 kilometers from the border of Xinjiang (China) and Yarant (Mongolia). It has a gross area of 200,000 square meters and situated in Qinghe County, Altay Prefecture of Xinjiang, China. The coal washing plant comprises the main plant and production area, the raw coal stockpile area, and the office and living areas. The main plant and production areas include clean coal bunker, waste rock bunker, preparation workshop, filtration workshop and sedimentation facilities etc.

In September 2014, installation of all processing equipments was completed. All civil construction works were also completed in October 2014. We conducted a series of test runs immediately thereafter. The customs bonded yard of the coal washing plant received the permit for use in November 2014.

The test runs of the DPP in Khushuut and the coal washing plant in Xinjiang were to our satisfaction and they were put to formal operation by the end of 2014. Resumption of commercial coal export took place immediately thereafter.

Customers and Sales

As we were under coal production halt for the majority period of the Financial Year, we did not actively market for new customers during the year.

As we resumed commercial export by the end of 2014, the amount of coking coal sold during the Financial Year did not represent our full production capacity. However, as the continuous decline in price of coking coal in the PRC, this has negative impact on the scale of our production. We anticipate our coming production scale will shrink unless there is a rebound in the coking coal market.

Licences

Under the Minerals Law of Mongolia (the "**Minerals Law**"), in order to maintain an exploration licence valid and effective, a holder of such licence has numerous obligations to fulfill. These include, among others, submission of annual exploration plans, exploration reports, environmental protection reports, and annual safety reviews. An exploration licence holder is required to spend minimum exploration expenses on its exploration licence. An annual licence fee is also required to maintain validity of the exploration/mining licence.

Non-compliance of the requisite requirements will not only lead to suspension or revocation of the licence, but also subject the holder to a fine.

Under our austerity measures, we have gradually returned the non-potential exploration and mining licences to the Mongolian government. These licences were non-Khushuut project related. The giving up or return of these licences will not have any material impact on the Group's financial condition and results of operations.

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

Legal and Political Aspects

Failing economy and certain internal political reasons have prompted the Mongolian Parliament to appoint a new Prime Minister, Mr. Ch. Saikhanbileg and change the Cabinet in November 2014. Stimulation of the Mongolian economy and encouragement of foreign and domestic investments remain as the core policies of the Mongolian government. When announcing the policy program of his cabinet, the new Prime Minister emphasized the intention to overcome the current recession by supporting private entrepreneurship and creating better and transparent regulatory mechanisms at all government levels for mining operations.

A couple of government programs have been enacted with the purpose of improving the economic situation in the country and supporting small and medium enterprises and producers by reducing their tax burden, waiving import tariffs, limiting the government interference into the private businesses and encouraging various funding schemes. For example, the Parliament adopted a resolution in mid February 2015 to enable a program of "Overcoming the Current Economic Hardships", and the Mongolian government would allocate MNT70 billion financing to the "Fund for Promoting Small and Medium Enterprises". The Mongolian government hopes the assistance would increase exports, promote the production of import-substituting products, and create jobs.

In the Financial Year, no legislative changes with adverse effect on our investments in Mongolia had been made. On the contrary, some amendments had been made to restore the confidence of investors in the mining sector.

Under the Minerals Law, the Parliament of Mongolia may declare a deposit as being strategically importance ("**Strategic Deposit**") and the Mongolian government has the power to participate into the equity interest of up to 50% of the mine being declared as Strategic Deposit, depending on the source of funding and the amount of investments made by the investors. In order to boost the confidence of the investors, amendments had been made to the Minerals Law relating to Strategic Deposit. The amendments provide an option for the Mongolian government either to take an equity interest in such deposits or to impose a special royalty in lieu of such interest. Accordingly, the amendments allow the Mongolian government's equity interest in a Strategic Deposit to be transferred to the licence holder, and in return, the licence holder will pay a special royalty by percentage approved by the government. The exact amount of royalty will vary depending on the specifics of the deposit, but is capped at a maximum of 5% in addition to other royalties payable under the Minerals Law and supplementary legislation.

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**") used to impose severe restrictions on exploration and mining licences over environmental protection issues. 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. Changes have been introduced under its amendments in 2015. The main change is that the licence holders may continue their operations subject to undertaking a number of obligations in respect of protection and restoration of the environment. If the licence holders wish to operate on the affected areas, they should submit requests to the Mineral Resources Authority of Mongolia (the "**MRAM**") within three months from the effective date of amendments (16 March 2015), and also enter into an agreement with the Mongolian Ministry of Environment, Green Development and Tourism, the MRAM and the governor of the relevant province. The licence holders are required to deposit funds equal to the cost of environmental protection and restoration for the project. However, the amendments are only applicable to the "ordinary" protection zones rather than headwaters of rivers or other protected zones. The licence with areas overlapping with headwaters of rivers and other protected zones may still have the risks of revocation under the MPL. Nevertheless, it provides more certainty to investors who are still investing in or will consider investing in the mining sector.

In addition, the MRAM had started re-issuing mineral exploration licenses in February 2015 which was halted from issuing years ago by the president of Mongolia.

By resolution #193 of 16 March 2015, the Mongolian Cabinet endorsed the use of relevant international coal specifications standards in coal mining operations in Mongolia.

Further, in an attempt to ensure the efficient and proper use of state and local government funds, the transparency of decisions and actions concerning budget management, the Parliament of Mongolia adopted the Law on Glass Account which aims at establishing a transparency system of reporting on financial transactions of government agencies and public organizations. The law enables citizens' control and monitoring of the spending of the taxpayers' money. It will help Mongolia establish an effective financial prudence and accountability system, prevent corruption, bribery and misuse of public funds.

Over the last few months, some major decisions concerning larger mineral mines and their foreign investors have been made: an agreement between the Cabinet and Rio Tinto, one of global mining giants, over a massive underground expansion of the flagship copper and gold mine Oyu Tolgoi had been reached after two years of negotiations; a consortium comprised Mongolia's Energy Resources LLC, China's Shenhua Energy Co., Ltd. and Japan's Sumitomo Corp established a strategic investment agreement with Mongolian government for the state-owned Tavan Tolgoi deposit. These and other landmark decisions indicate the Mongolian government's determination to support private investments in the country.

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.

In September 2013, we received the mediation notices from Leighton. According to these notices, Leighton proposed a stay of proceedings pending the mediation. The mediation has yet to proceed. A notice of intention to proceed from the legal representative of Leighton was issued to us. Apart from this, there was no development in the Financial Year.

In May 2015, Leighton applied to Court to amend its statements of claim under the two writs by amending, among others, (i) the currency of the claims from Mongolian Tugrik to United States Dollar; and (ii) the amount of the claim to include the alleged contractor's fees up to October 2014.

Leighton magnified its claim amount by adding the invoice amount from January 2013 up to October 2014, alleging that the relevant mining agreement was in suspension and was only terminated in October 2014 as a result of MoEnCo's repudiation by engaging a replacement contractor to carry out the mining works.

According to its amended statement of claims,

(i) the amount of the first writ claimed has changed from MNT12.2 billion (Mongolian Tugrik) (approximately HK$57.3 million) to US$9.04 million (approximately HK$70.1 million); and

(ii) the amount of the second writ claimed has changed from MNT7.7 billion (approximately HK$36.4 million) to US$16.6 million (approximately HK$128.8 million),

making the total claims now at US$25.64 million (approximately HK$198.9 million).

According to the advice from our legal adviser, the contract with Leighton was terminated on or before the mine was handed over to us in 2012 and we have a reasonably strong case to defend such claims. We will continue to pursue the case to protect our best interests.

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 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.

SJ terminated the co-operation and lodged an arbitration application against MoEnCo and the Company for a claim of approximately RMB32 million (approximately HK$40 million), being refund of the payment it made in advance on behalf of MoEnCo (mainly tax, levy, and other costs incurred in the PRC) and loss of profit, and interest, etc. for breach of contract.

The payment made in advance in the amount of approximately RMB11 million (approximately HK$13.7 million) had been provided for in our consolidated financial statements.

MoEnCo and the Company objected to the claims by SJ. The arbitration was initially heard in November in 2014 and it was further heard in January 2015. The result of the arbitration is expected to be handed down by the end of July 2015.

Others

Subscription of Convertible Notes

The issue of the convertible notes was completed which the 2014 GI Convertible Note, the 2014 CTF Convertible Note, and the 2014 SF Convertible Notes were issued to the relevant holders on 21 November 2014 to replace the expired and outstanding convertible notes of the Company. The aggregate principal amount of these new convertible notes issued was approximately HK$3,467.0 million. So far, no conversion of shares by any of the noteholders has been taken place.

FINANCIAL REVIEW

1. Liquidity and Financial Resources

During the Financial Year, the Group's capital expenditure and working capital were mainly funded by short term loans granted by Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), chairman of the Company.

During the Financial Year, the Company issued new 5-year 3% convertible notes with total principal amount of HK$3,467.0 million to redeem in full all outstanding/expired convertible notes.

The borrowings of the Group as at 31 March 2015 comprised convertible notes and advances from Mr. Lo amounting to HK$4,097.5 million (2014: HK$4,040.7 million). The convertible notes are non-current liabilities and will be matured on 21 November 2019. The advances from Mr. Lo are current liabilities.

As at 31 March 2015, the cash and bank balances were HK$13.1 million (2014: HK$48.6 million) and the liquidity ratio was 0.10 (2014: 0.03).

The Group had net current liabilities of approximately HK$1,301.2 million (2014: HK$4,513.4 million) as at 31 March 2015. Mr. Lo commits to offer his financial support to the Group during and after the Financial Year. Accordingly, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future.

2. Investment in Listed Securities

The increase in carrying value of the investment in listed securities was arising from the fair value gain of HK$12.01 million (2014: HK$29.8 million).

3. Charge on Group's Assets

There was no charge on the Group's assets as at 31 March 2015 (2014: Nil).

4. Gearing Ratio

As at 31 March 2015, the gearing ratio of the Group was 3.7 (2014: 0.5) 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 2015 are disclosed at Note 37 to the consolidated financial statements.

EVENTS AFTER THE FINANCIAL YEAR

Tenancy Agreement

Our existing office lease in Hong Kong is due to expire in July 2015. According to our austerity measures, we have rented a new office premises located in Connaught Road West to replace our existing office. The new tenancy agreement was entered on 27 April 2015. It is for a term of two years commencing from 8 May 2015 and expiring on 7 May 2017 with an option to renew for one year.

The Landlord is an investment holding company wholly and beneficially owned by Mr. Lo, the Chairman and Executive Director of the Company. As Mr. Lo is a connected person of the Company, the tenancy agreement constituted a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. In this connection, an announcement required by the Listing Rules was published on 27 April 2015.

Mining Contractors

Our mining operations have been affected by the unfavourable market conditions and the continuous decline in price of coking coal in China. Pursuant to our austerity measures, on 30 April 2015, we requested our overburden removal contractor to temporarily suspend its works for a discussion of rescheduling the scale of our mining works. The measures taken are to preserve our cash position to ensure we have sufficient working capital for our business in the ordinary course.

We proposed a slash in overburden removal works until 31 December 2015 and the settlement method of their service fees so as to alleviate our operating expenses and cash outflow.

As no mutually acceptable solution regarding the relevant arrangement could be reached, we terminated the overburden removal contract pursuant to the terms of the relevant mining agreement. The termination will be effective on 24 July 2015.

On 8 June 2015, the Company and MoEnCo LLC entered into the subscription agreement with the coal extraction contractor (the "**Subscriber**") whereby the Subscriber conditionally agreed to subscribe for a total of 11,055,179 new ordinary shares of the Company at the subscription price of HK$0.54 per share. The aggregate subscription amount in the sum of HK$5,969,796.66 is equivalent to the amount of the outstanding service fees in the sum of US$770,296.37 due and owing by MoEnCo LLC to the Subscriber under the relevant mining agreement for the mining and related services rendered by the Subscriber to MoEnCo LLC in March and April 2015. The subscription amount is used to repay and settle the said outstanding service fees. Completion of the subscription took place on 17 June 2015 in accordance with the terms of the subscription agreement.

RISK FACTORS

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

Cyclical nature of coal markets and fluctuations in coal prices

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

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

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

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

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

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

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

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

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

Significant and continuous capital investment

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

The Mongolian authorities may also impose moratorium on any licences if the holders are in breach of any relevant laws in Mongolia.

Management Discussion and Analysis (Continued)

Mining Prohibition Law

On 16 July 2009, the Parliament of Mongolia enacted the MPL which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas and areas adjacent to rivers and lakes.

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

Pursuant to the MPL, the Mongolian government was supposed to define the boundaries of the relevant prohibited areas by 16 October 2009 but it had not done so by the prescribed time.

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

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

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

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

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

Strategic Deposits

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

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

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

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

Licence risk

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

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

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

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

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

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

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

Country risk

The business of the Group is currently in Mongolia 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 new laws and make amendments to the laws;

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

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

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

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

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

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

OUTLOOK

As disclosed in our results this year, we have been impacted by the adverse global coking coal market conditions. The average market price of coking coal has been dropping to its lowest level in China in the decade, causing many miners to go on a suspension mode or to cut the output for battling the sluggish demand. Similar to other miners in China, our primary short term focus is to cut down the operating expenses. A number of measures have already been adopted during this year including relocation of our office premises in Hong Kong in the coming July, termination of the overburden removal services, and reduction of the operation scale and output of our coal mine. We anticipate our mining operations will remain in a relatively low scale in short term unless there is a sharp rebound in the market prices of coking coal. We will continue to revise our mining plan from time to time in response to the market conditions and developments closely. We are grateful for the support of some of our contractors which have agreed to lower their service fees up to the end of this year in view of the current unfavourable market conditions.

Although the demand of coking coal has been keeping at a low level throughout the year so far, there are positive signs that the China's coking coal market is stabilized in June 2015. Some Shanxi big miners are keeping prices unchanged while some have increased their coking coal prices mildly. There are also reports stating that the steel makers have been making marginal profits recently. We are optimistic that the demand of steel will increase gradually in China under the national policies of "One Belt, One Road" and the support for the China's estate market which will help turn around the coking coal market in the medium term.

Though we are facing the current unfavourable market environment, we would seize any opportunities that may maximize the value of the Company and the shareholders' return.

EXPLORATION AND MINING CONCESSIONS OF THE GROUP

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

Licence (licence no.)	Location (resources)	Mine Area (approximate) (hectare)[△]	Date of issuance	Licence valid period	Development status/ Remarks
	(coal resources)				
1414A 1640A 4322A✧ 6525A 11887A 11888A✧ 15289A✧	Khovd, Western Mongolia	2,165	30 December 1998 25 May 1999 23 April 2002 7 November 2003 14 August 2006 14 August 2006 23 November 2009	70 years for Mining Licences (A)▲▲	Approximate 141 million tonnes of in-place resources according to JORC standards*
2913A✧	Olon Bulag, Western Mongolia	38	26 January 2001	70 years for Mining Licence (A)▲▲	
	(ferrous resources)				
14349X✧	Bayan-Ulgii, Western Mongolia	2,983	24 October 2008	12 years for Exploration Licence (X)▲	To seek potential buyer
Total Hectares		**5,186**			

△ *1 hectare = 10,000 square metres*

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

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

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

* *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.

Note: During the Financial Year, the Company had returned licence nos. 11515X, 11628X, 11719X, 11724X, 11889A, 11890A, 12126X, 14426X and 17277X to the Mongolian government.

Sustainability Report

At MEC, we aim to create long-term value and benefits for our stakeholders and the communities in which we operate. This report is intended to communicate our sustainability efforts and performance with our stakeholders.

OUR VALUES

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

TRANSPARENCY OPPORTUNITY

COMMUNITY ACTION RESPONSIBILITY EDUCATION

WE CARE ...

For Our Corporate Governance

Effective governance, standards and controls within the Group can help ensure good sustainability performance in our business operations.

Legal Compliance and Code of Conducts

MEC operates in several jurisdictions with different legal and regulatory requirements. Compliance with local laws, legal and regulatory requirements is always our top priority. MEC believes that good governance principles and practices are integral to every business. Apart from complying with all applicable laws, regulations and legal requirements, our management and employees are expected to fully adhere to the principles contained in the Corporate Governance Practices Manual, including the Company policies, the Code for Securities Transactions by Directors, the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules, and the Employees' Guidelines. The Board has the responsibility to review and maintain the corporate governance to ensure our Group is consistently conducting the business in a socially responsible and ethical manner, as well as handling alleged unethical conducts and violation of rules promptly and discreetly.

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 legislations and regulations. Latest news and developments are disclosed in an accurate and timely manner though public announcements which are uploaded to our website at www.mongolia-energy.com and the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. We maintain two-way communications with our shareholders through annual general meeting, investor relations' hotline and email contacts. In Mongolia, we regularly hold meetings with the local government and the local community representatives for the purpose of disclosing our project related information, listening to their opinions and identifying their needs, and providing support to the concerned parties.

For Our People

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

Non-discrimination & Equal Opportunity

MEC is committed to embracing diversity and inclusion in all aspects of our business. We provide equal employment opportunities without regard to race, colour, gender, age, marital status, religion, national origin or any other legally protected status. We ensure that every employee is treated equally and fairly in all aspects of employment including recruitment, compensation, benefits, training, promotion, transfer and termination. We create a working environment where different perspectives are encouraged and valued. We believe a diverse workforce and an inclusive workplace can foster greater employee motivation and performance which ultimately benefit our Group.

Although mining industry is more or less male-dominated compared to other industries, MEC applies the same recruitment standards and same structure of remuneration for men and women based on equal opportunity and non-discrimination. In line with our community development strategy by providing job opportunities to local citizens, we favour the employment of local citizens at every level of our Group. During the Financial Year, no complaints related to harassment, discrimination and human rights were recorded at our offices and sites. We will continue to operate an open and fair system to deal with complaints from our employees.

Employee Statistics as at 31 March 2015

	Hong Kong	China	Mongolia
Headcount*	29	148	375
By Employment Type			
Full-time	100%	100%	100%
Part-time	0%	0%	0%
By Gender			
Female	66%	30%	29%
Male	34%	70%	71%
By Nationality			
Chinese (HKSAR)	100%	1%	0%
Chinese (PRC)	0%	99%	5.6%
Mongolian	0%	0%	93.9%
Other	0%	0%	0.5%
By Age Group			
18 to 25	3.5%	14.9%	18.1%
26 to 35	27.6%	38.5%	47.2%
36 to 45	34.5%	27.7%	21.6%
46 to 55	24%	15.5%	10.7%
56 or above	10.4%	3.4%	2.4%

* *Excluding contractors' employees*

Training and Development

MEC believes a comprehensive training program can enhance individual and organizational capability, as well as reduce the number of injury, illness, property damage and missed time from work. Our training program covers vocational trainings, safety trainings and management development trainings. During the Financial Year, 38 training sessions were conducted for our employees and contractors on-site in Khushuut. All of our coal washing plant employees had undergone the requisite occupational safety trainings according to the relevant laws in the PRC. Further training sessions for occupational health and safety regulations, operation procedures, proper use of occupational disease protective equipment were conducted regularly for relevant staff according to their job duties. Our employees are often required to take theory tests and practical assessments after the training sessions in order to ensure everyone is up-to-date with the extensive range of skills and safety knowledge.

Health and Safety

Safety is particularly critical to a mining company. All of our employees, contractors and sub-contractors must strictly comply with the government regulations and standards and follow our safety rules. They are obligated to minimize risks 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.

MoEnCo LLC ("**MoEnCo**"), our operating subsidiary in Mongolia, has formulated the Health and Safety Manual in line with the international best practice of occupational health and safety management. The Manual is intended for our employees to understand the policies and procedures of workplace safety so as to mitigate risk of injury. The procedures are developed based on the 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. Lagging and leading indicators are adopted to measure the health and safety performance on a monthly basis. Daily and weekly workplace inspections are conducted by supervisory staff and safety officers to identify potential workplace hazards, assess safety risks, and immediate actions are taken to correct any activity deviated from the policies and procedures.

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

We have a 24/7 medical service centre on-site which is operated by a medical team with doctors and nurses on a shift basis. Our medical team provides primary health care, medical emergency response, stabilization, treatment, and first aid training to MoEnCo's employees. Moreover, we also provide outpatient medical care and emergency services for the local people in Mongolia. During the Financial Year, our medical team had treated 311 patients from the local community and approximately one-tenth of the cases were transferred to the second-level hospital or the regional hospital by our ambulance.

Safety Statistics

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

* *Including both our employees and contractors' employees*

For Our Environment

We aim to minimize environmental harm at every stage of our mining operations. 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.

Environmental Management Plan

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

We are devoted to minimize and mitigate our impacts on the environment, therefore, we regularly monitor and measure our activities to ensure they are accepted by national standards. Water monitoring is carried out every week and samples are sent to the certified external laboratory for analysis on a monthly basis. Dust monitoring is carried out every two weeks at more than 20 locations within our mine site and comprehensive air quality assessment is conducted twice a year by a certified external professional. Soil analysis is conducted quarterly at more than 20 locations within our mine site. Soil samples are taken and sent to the Laboratory of Soil Science of the Institute of Geography for analysis. Furthermore, we have invariably included in the provisions of all 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.

Sound waste management planning is an important part of long term sustainable development. On-site waste are properly treated and segregated into different waste streams before disposal. General solid waste is buried or burnt at the specific rubbish dump area while general liquid waste is delivered to the sewage treatment plant in Khovd Province. Clinical waste is delivered to the licensed clinical waste collector for high temperature incineration while hazardous liquid waste is delivered to the chemical waste treatment centre for special treatment. During the Financial Year, more than MNT15,000,000 (approximately HK$60,000) were spent on providing loading equipment and assisting the local villagers of Darvi District to clean the garbage in the local areas periodically.

Land rehabilitation is an essential component of mining activities. During the Financial Year, after completing the construction of our dry coal processing plant (DPP), we had planted 800 saplings around the DPP and the customs bonded yard. A number of biological rehabilitation activities were also carried out along the land where explorations activities were conducted during the year. Seeds of perennial plants were sprinkled over the soil surface in order to protect the soil from erosion.

Extreme Weather

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

Extreme weather conditions can be a risk to our operations and employees' health and safety. For example, the road condition becomes very poor and slippery during snow season which can be a very dangerous condition for our trucks and vehicles. To deal with this problem, a significant amount of effort and finances was spent on snow removal and road maintenance to ensure clean and safe roads are maintained efficiently. Another example is the dust pollution caused by the strong wind. Our current production and coal processing system creates coal ashes. We completed the building of dust suppression wall on-site in November 2014 to control the wind flow around the coal yard and reduce the amount of airborne dust during coal processing. A feasibility study was conducted by a professional technical consulting company in 2015 to further address the technical plans for emission reduction and provide solutions for dust control. Our team is constantly looking for ways to reduce the environmental impacts of our operations.

Green Office

MEC sees the importance to promote green culture at our workplace and encourage our employees to sustain the green efforts in their daily lives in long term. Our Hong Kong Office participated in the World Green Organisation's (WGO) Green Office Awards Labelling Scheme, which is a programme that strives to ensure environmental sustainability as set out in the United Nations Millennium Development Goals (UNMDG). In recognition of our efforts and commitment to reduce energy consumption and move further towards a low carbon office operation, MEC was awarded the WGO's "Green Office" Label and the UNMDG's "Better World Company" Label in July 2015.

For Our Community

As a good and responsible corporate citizen, MEC continues to emphasize on community developments and partnerships by giving back to the local people in Mongolia. We aim to share benefits to local communities and generate economic values by creating jobs, procuring local goods, supporting social developments, and paying taxes and royalties. We engage with local government bodies and local villagers regularly. We listen and respond to concerns they may have about our operations and put efforts to reduce the negative impacts to their lives.

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

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

During the Financial Year, MoEnCo had contributed MNT140,000,000 (approximately HK$550,000) in the street enhancement works including new pedestrian pavement, street lighting, street greening and water pipes installation in Khovd City of Khovd Province. MoEnCo provided an electric generator and a water tanker at its own costs to the households of the Khushuut Village. MoEnCo had also sponsored MNT45,000,000 (approximately HK$180,000) to the local events such as the anniversary celebration event of a district and investor forums etc.

OUR COMMITMENT

In the coming year, we target to strengthen our interactions with customers, local communities and stakeholders. It is our responsibilities to ensure the health and safety of our employees and help enhance the quality of life for the local communities in which we operate. Despite the uncertainties around the global coal market conditions, we will continue our efforts to build a sustainable and resilient future for our Group, and the present and future generations.

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

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

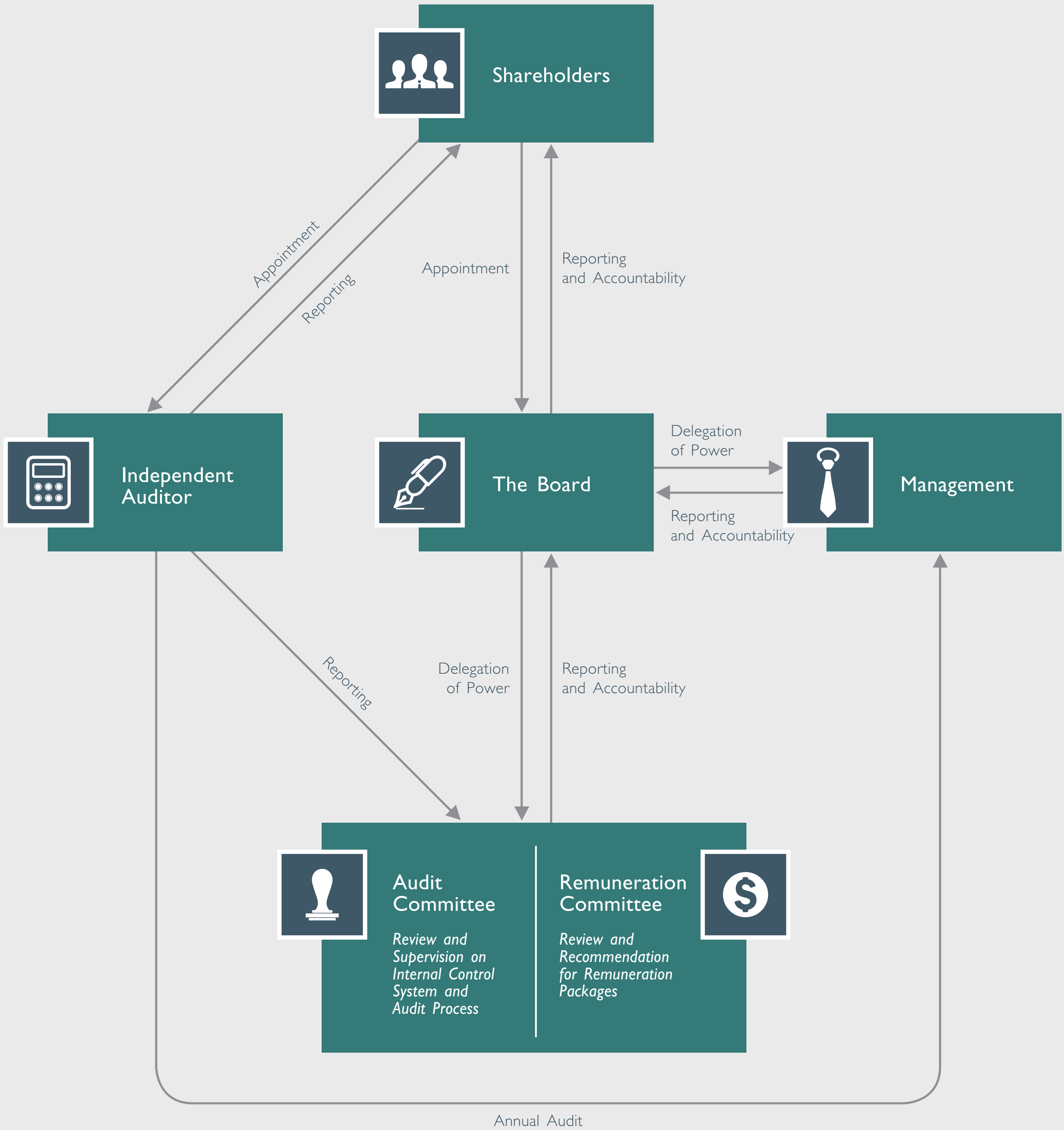
ii. Code provisions A.5.1 to A.5.4 of the CG Code require a nomination committee to be set up, chaired by the chairman of the board or an independent non-executive director to review the structure, size and composition of the board at least annually to complement the issuer's corporate strategy.

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

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

   Due to another business engagement, the Chairman was unable to attend the 2014 AGM. An executive Director took the chair of the 2014 AGM and answered questions raised by the shareholders. The AGM provides a channel for communication between the Board and the shareholders. Chairman of the Audit and Remuneration Committees of the Company was also present to answer shareholders' questions at the 2014 AGM. Other than the AGM, the shareholders may communicate with the Company through the contact methods listed on the Company's website.

CORPORATE GOVERNANCE STRUCTURE



COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

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

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

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

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

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Good corporate governance and enterprise-wide risk management are essential for every business. The Company is convinced that corporate governance and Directors and Officers Liability Insurance (the "**D&O Insurance**") complement each other. The Company has arranged the appropriate D&O Insurance coverage on the Directors' and officers' liabilities in respect of legal actions against the 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 42 to 43. 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 the Report are:

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

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 skill, 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, skill and experience appropriate to the business and development of the Company. The shareholders may propose a candidate for election as a director and the procedures have been published on the website of the Company.

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

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

(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 the Directors setting out the key terms and conditions of their respective appointments.

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

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

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

During the Financial Year, all the Directors, 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 responsibilities are 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 the Directors receive reliable, adequate and complete information in a timely manner. The Chairman may communicate with the Directors directly or through the assistance of the Company Secretary to discuss or clarify any issues concerning the Group from time to time, and to provide any supporting information and documents to them.

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

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

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 trainings 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.

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.

The statement of the independent auditor of the Company regarding their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 53 to 54.

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

(f) Meetings and Corporate Communication

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

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

During the Financial Year, the Company held two general meetings which included the AGM. In The Directors and the independent auditor of the Company had attended the 2014 AGM to answer the shareholders' enquiries. In addition, separate resolutions for each separate issue had been proposed at the general meetings 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 two general meetings. The attendance of each Director is listed below:

	Number of Board Meetings Attended/Held	Number of General Meetings Attended/Held
Directors		
Executive Directors		
Mr. Lo Lin Shing, Simon	4/4	0/2
Ms. Yvette Ong	1/4	1/2
Non-executive Director		
Mr. To Hin Tsun, Gerald	4/4	0/2
Independent Non-executive Directors		
Mr. Peter Pun *OBE, JP*	4/4	1/2
Mr. Tsui Hing Chuen, William *JP*	4/4	1/2
Mr. Lau Wai Piu	4/4	2/2

For regular Board meetings, at least fourteen-day 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 the Company Secretarial Department and are available for inspection by the Directors at any reasonable time. For other Board meetings, reasonable prior 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 a written resolution.

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

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

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 the prevailing market rates and give recommendation, and to review and study the remuneration level of the senior management of the Company and give recommendation.

(a) Composition of Remuneration Committee

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 the executive Directors with reference to corporate goals and objectives resolved by the Board from time to time, and determining, with delegated responsibility, the remuneration packages of the individual Executive Directors.

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

(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 2014 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 purposes. 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 53 to 54.

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

	HK$'000
Audit services	3,345
Non-audit services	940
	4,285

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 Companies Act.

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

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

If the Board does not within twenty-one days from the date of deposit of the requisition proceed duly to convene a general meeting, the shareholders concerned may convene the general meeting in the same manner in accordance with the provisions of Section 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 AGM; or (ii) convene a special general meeting by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders.

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

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

(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 are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company.

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

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

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

(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 that effect at the principal place of business of the Company for the attention of the Company Secretary.

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

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

All 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. Contact details of the Company are posted on the website in order to enable the shareholders and other stakeholders to make enquiries in respect of the Group.

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

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 59, 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 50, 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 66, 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 84, 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 64, 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 51, joined the Company as an Independent Non-executive Director since September 2004. He has over 20 years of extensive experience in accounting and financial management. Mr. Lau is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Lau is also an independent non-executive director of International Entertainment Corporation, Haitong International Securities Group Limited and Vision Values Holdings Limited, all of which are listed on the Stock Exchange.

Directors' Report

The Directors present their report together with the audited 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 energy and metal resources exploration, coal operations and other related operations. The activities of the principal subsidiaries are set out in Note 40 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group for the year ended 31 March 2015 is set out in Note 8 to the financial statements.

RESULTS

The results of the Group for the year ended 31 March 2015 are set out in the Consolidated Statement of Profit or Loss on page 55.

No interim dividend was declared (2014: Nil) and the Directors do not recommend the payment of a final dividend for the year ended 31 March 2015 (2014: 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 34 and 35 to the 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 2015 and for the last four financial years are set out on page 119.

RESERVES

Movements in reserves of the Group during the year are set out on page 59.

DONATIONS

For the year ended 31 March 2015, the Group made donations for charitable and other donations to a total amount of HK$2,276,000.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in Note 16 to the financial statements.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the principal subsidiaries and associated companies of the Group as at 31 March 2015 are set out in Notes 40 and 22 to the 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	99%
Five largest customers in aggregate	100%
Purchase	
The largest purchaser	22%
Five largest purchaser in aggregate	41%

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)*

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

In accordance with Bye-law 87 of the Bye-laws of the Company, Mr. Lo Lin Shing, Simon and Mr. Tsui Hing Chuen, William *JP* will retire. All the retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM.

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

Biographical details of the Directors and Senior Management of the Group are set out on pages 42 to 43.

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 29 to 41.

DIRECTORS' INTERESTS

As at 31 March 2015, the interests or short positions of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Long positions in the shares

Name of Directors	Capacity	Number of shares	Percentage of shareholding
Mr. Lo Lin Shing, Simon ("**Mr. Lo**")	Interest of a controlled corporation/Beneficial owner/ Interest of spouse	303,197,075 *(Note)*	17.950%
Ms. Yvette Ong	Beneficial owner	272,500	0.016%
Mr. To Hin Tsun, Gerald	Beneficial owner	1,350,000	0.080%
Mr. Tsui Hing Chuen, William *JP*	Beneficial owner	125,000	0.007%
Mr. Lau Wai Piu	Beneficial owner	50,300	0.003%

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

(b) Long positions in the underlying shares

Name of Directors	Capacity	Number of shares	Percentage of shareholding
Mr. Lo	Interest of a controlled corporation/Personal	684,644,067 *(Note)*	40.532%
Ms. Yvette Ong	Personal	1,375,000	0.081%
Mr. To Hin Tsun, Gerald	Personal	375,000	0.022%
Mr. Peter Pun *OBE, JP*	Personal	375,000	0.022%
Mr. Tsui Hing Chuen, William *JP*	Personal	375,000	0.022%
Mr. Lau Wai Piu	Personal	375,000	0.022%

Note: Among the 684,644,067 shares, 677,894,067 shares represent interest of Golden Infinity. The balancing of 6,750,000 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 2015, 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 2015, 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	987,841,142 (Note 1)	58.482%
Golden Infinity	Corporate	979,413,642	57.983%
Dr. Cheng Kar Shun	Interest of a controlled corporation/ Interest of spouse	98,667,500 (Note 2)	5.841%
Ms. Ip Mei Hing	Interest of a controlled corporation/ Interest of spouse	98,667,500 (Note 2)	5.841%
Dragon Noble Group Limited ("**Dragon**")	Corporate	78,892,500	4.671%
Dato' Dr. Cheng Yu Tung	Beneficial owner/Interest of a controlled corporation	3,087,277,397 (Note 3)	182.772%
Chow Tai Fook Nominee Limited ("**CTF**")	Corporate	3,086,027,397 (Note 3)	182.698%

Notes:

1. *Mrs. Lo is the spouse of Mr. Lo and accordingly, she is deemed to be interested in 987,841,142 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 78,892,500 shares held by Dragon and 19,775,000 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 3,086,027,397 shares held by CTF. 3,086,027,397 shares held by CTF represent 55,000,000 shares and 3,031,027,397 underlying shares.*

Save as disclosed above and those disclosed under "**DIRECTORS' INTERESTS**", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 31 March 2015.

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 168,913,695 which represent approximately 10% of the issued share capital of the Company as at 31 March 2015.

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 Scheme

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 the 2012 Share Option Scheme, during the Financial Year were as follows:

(A) Directors

					Number of shares subject to options					
Name	**Date of grant**	**Adjusted Exercise price HK$** *(Note)*	**Exercise period**	**Vesting period**	**As at 1 April 2014**	**Granted during the year**	**Adjusted during the year** *(Note)*	**Lapsed during the year**	**Exercised during the year**	**As at 31 March 2015**
Mr. Lo	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	6,000,000	–	(4,500,000)	–	–	1,500,000
	29-02-2012	3.240	29-02-2012 to 28-02-2017	N/A	6,000,000	–	(4,500,000)	–	–	1,500,000
	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	15,000,000	–	(11,250,000)	–	–	3,750,000
Ms. Yvette Ong	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	500,000	–	(375,000)	–	–	125,000
	01-09-2011	3.240	01-09-2011 to 31-08-2014	N/A	5,000,000	–	–	(5,000,000)	–	–
	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	5,000,000	–	(3,750,000)	–	–	1,250,000
Mr. To Hin Tsun, Gerald	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	500,000	–	(375,000)	–	–	125,000
	29-02-2012	3.240	29-02-2012 to 28-02-2017	N/A	500,000	–	(375,000)	–	–	125,000
	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	500,000	–	(375,000)	–	–	125,000
Mr. Peter Pun *OBE, JP*	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	500,000	–	(375,000)	–	–	125,000
	29-02-2012	3.240	29-02-2012 to 28-02-2017	N/A	500,000	–	(375,000)	–	–	125,000
	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	500,000	–	(375,000)	–	–	125,000
Mr. Tsui Hing Chuen, William *JP*	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	500,000	–	(375,000)	–	–	125,000
	29-02-2012	3.240	29-02-2012 to 28-02-2017	N/A	500,000	–	(375,000)	–	–	125,000
	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	500,000	–	(375,000)	–	–	125,000
Mr. Lau Wai Piu	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	500,000	–	(375,000)	–	–	125,000
	29-02-2012	3.240	29-02-2012 to 28-02-2017	N/A	500,000	–	(375,000)	–	–	125,000
	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	500,000	–	(375,000)	–	–	125,000
Sub-total					43,500,000	–	(28,875,000)	(5,000,000)	–	9,625,000

(B) Employees in aggregate

Name or category of participants	Date of grant	Adjusted Exercise Price HK$ (Note)	Exercise period	Vesting period	Number of shares subject to options: As at 1 April 2014	Granted during the year	Adjusted during the year (Note)	Lapsed during the year	Exercised during the year	As at 31 March 2015
Employees in aggregate (including a director of certain subsidiaries)	09-04-2010	16.440	09-04-2010 to 08-04-2015	N/A	3,300,000	–	(1,725,000)	(1,000,000)	–	575,000
	29-02-2012	3.240	29-02-2012 to 28-02-2017	N/A	42,500,000	–	(16,875,000)	(20,000,000)	–	5,625,000
	08-04-2013	1.280	08-04-2013 to 07-04-2018	N/A	43,500,000	–	(17,625,000)	(20,000,000)	–	5,875,000
Sub-total					89,300,000	–	(36,225,000)	(41,000,000)	–	12,075,000
TOTAL					**132,800,000**	**–**	**(65,100,000)**	**(46,000,000)**	**–**	**21,700,000**

Note: Adjustments have been made to the exercise price and the number of shares of the Company comprised in the outstanding share options which may be allotted and issued upon exercise as a result of the consolidation of shares completed on 21 November 2014.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of 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 2015, a total of HK$1,206 million was drawn by the Company.

Agreed-upon procedures performed by the Auditor of the Company

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the Independent Auditor to perform certain agreed-upon procedures in respect of the above continuing connected transaction of the Group and the Independent Auditor reported the actual findings on these procedures to the Board. The procedures were performed solely to assist the Directors to evaluate whether the continuing connected transaction entered into by the Group for the Financial Year:

(i) had received the approval of the Board; and

(ii) had been entered in accordance with the terms of the respective agreements governing such transactions.

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 had 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 were fair and reasonable and in the interests of the Company and the shareholders as a whole.

A copy of the abovesaid Independent Auditor's letter had been submitted by the Company to the Stock Exchange.

GROUP'S BORROWINGS

Details of the Group's borrowings are set out in Notes 31 and 38 to the financial statements.

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

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

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

The Audit Committee currently comprises 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 year ended 31 March 2015 had been reviewed by the Audit Committee.

HUMAN RESOURCES

As at 31 March 2015, excluding site and construction workers directly employed by our contractors, the Group employed 552 full-time employees in Hong Kong, Mongolia, and the PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on a periodic basis. Apart from the retirement scheme, staff bonus, and share options are awarded to the employees according to performance of the Group, assessment of individual performance, and industry practice. Appropriate training programs are also offered for staff training and development.

SUFFICIENCY OF PUBLIC FLOAT

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

INDEPENDENT AUDITOR

The 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, 22 June 2015

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Mongolia Energy Corporation Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 55 to 117, which comprise the consolidated statement of financial position as at 31 March 2015, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTERS

As disclosed in Note 16 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 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 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 is required to be recognised in the consolidated financial statements.

In addition, we draw attention to Note 1 to the consolidated financial statements which indicates that as at 31 March 2015, the Group had net liabilities of approximately HK$3,239 million and net current liabilities of approximately HK$1,301 million. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from a substantial shareholder who is also the chairman and a director of the Company. If the finance is not available, the Group would be unable to meet its financial obligations as and when they fall due. This condition indicates the existence of a material uncertainly which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

22 June 2015

Consolidated Statement of Profit or Loss

For the year ended 31 March 2015

	Notes	2015 HK$'000	2014 HK$'000
Revenue	8	**12,259**	498
Cost of sales		**(94,558)**	(4,632)
Gross loss		**(82,299)**	(4,134)
Other income	9	**2,149**	322
Other gains and losses	10	**(43,820)**	(207,028)
Other expenses	12	**(22,603)**	(55,734)
Administrative expenses		**(124,889)**	(178,844)
Fair value gain on derivative component of convertible notes	31	**736,059**	42,392
Impairment loss on property, plant and equipment	3, 16	**(6,037,959)**	(224,011)
Impairment loss on intangible assets	3, 19	**(721,275)**	(28,416)
Impairment loss on development in progress	3, 20	**(25,855)**	(981)
Impairment loss on prepaid lease payment	3, 17	**(14,136)**	–
Impairment loss on exploration and evaluation assets	21	**(285,676)**	–
Impairment loss on available-for-sale financial asset	23	**(464)**	(934)
Impairment loss on amounts due from associates		**(9)**	(5,496)
Finance costs	11	**(247,253)**	(375,260)
Loss before taxation	12	**(6,868,030)**	(1,038,124)
Income tax expense	13	**–**	–
Loss for the year		**(6,868,030)**	(1,038,124)
Loss for the year attributable to owners of the Company		**(6,868,030)**	(1,038,124)
Loss per share attributable to owners of the Company			(Restated)
– basic and diluted loss per share (HK$)	15	**4.07**	0.61

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2015

	2015 HK$'000	2014 HK$'000
Loss for the year	**(6,868,030)**	(1,038,124)
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences arising on translation	**1,132**	6,651
Total comprehensive expense for the year	**(6,866,898)**	(1,031,473)

Consolidated Statement of Financial Position

As at 31 March 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current assets			
Property, plant and equipment	16	**856,404**	6,733,169
Investment property	18	**–**	–
Intangible assets	19	**102,050**	852,792
Development in progress	20	**3,613**	29,468
Exploration and evaluation assets	21	**–**	285,676
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
Prepaid lease payment	17	**1,935**	15,651
		965,152	7,928,364
Current assets			
Prepaid lease payment	17	**40**	–
Inventories	26	**23,738**	491
Trade receivables	25	**7,982**	–
Other receivables, prepayments and deposits	27	**26,905**	22,459
Held-for-trading investments	28	**68,289**	56,278
Amounts due from associates	22	**–**	–
Cash and cash equivalents	29	**13,083**	48,566
		140,037	127,794
Current liabilities			
Trade payables	30	**106,304**	68,136
Other payables and accruals		**127,985**	306,572
Convertible notes and other financial liability	31	**–**	3,260,528
Advances from a Director	38(a)	**1,205,662**	780,210
Deferred income	32	**1,266**	–
		1,441,217	4,415,446
Net current liabilities		**(1,301,180)**	(4,287,652)
Total assets less current liabilities		**(336,028)**	3,640,712
Non-current liabilities			
Convertible notes and other financial liability	31	**2,891,847**	–
Deferred income	32	**10,976**	12,665
		2,902,823	12,665
Net (liabilities) assets		**(3,238,851)**	3,628,047

Consolidated Statement of Financial Position *(Continued)*

As at 31 March 2015

	Notes	2015 HK$'000	2014 HK$'000
Financed by:			
Capital and reserves			
Share capital	34	**33,783**	135,131
Reserves		**(3,272,634)**	3,492,916
Equity attributable to owners of the Company		**(3,238,851)**	3,628,047

The consolidated financial statements on pages 55 to 118 were approved and authorised for issue by the Board of Directors on 22 June 2015 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 2015

	Attributable to owners of the Company						
	Share capital	**Share premium**	**Contributed surplus**	**Share options reserve**	**Translation reserve**	**Accumulated losses**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2013	135,131	13,107,506	199,594	62,037	(21,352)	(8,836,814)	4,646,102
Loss for the year	–	–	–	–	–	(1,038,124)	(1,038,124)
Other comprehensive income							
Exchange differences arising on translation	–	–	–	–	6,651	–	6,651
Total comprehensive income (expense) for the year	–	–	–	–	6,651	(1,038,124)	(1,031,473)
Equity-settled share-based payments	–	–	–	13,418	–	–	13,418
Share option 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**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(6,868,030)**	**(6,868,030)**
Other comprehensive income							
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**1,132**	**–**	**1,132**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**1,132**	**(6,868,030)**	**(6,866,898)**
Share option lapsed	**–**	**–**	**–**	**(15,999)**	**–**	**15,999**	**–**
Capital Reorganisation (Note 34)	**(101,348)**	**(13,107,506)**	**3,252,299**	**–**	**–**	**9,956,555**	**–**
At 31 March 2015	**33,783**	**–**	**3,451,893**	**43,199**	**(13,569)**	**(6,754,157)**	**(3,238,851)**

Consolidated Statement of Cash Flows

For the year ended 31 March 2015

	Notes	2015 HK$'000	2014 HK$'000
Operating activities			
Loss before taxation		**(6,868,030)**	(1,038,124)
Interest income	9	**(229)**	(142)
Write back of payables		**(408)**	–
Finance costs	11	**247,253**	375,260
Exchange loss		**4,964**	3,112
Loss on write off of property, plant and equipment	10	**39,413**	155
Loss on write off of exploration and evaluation assets	21	**140**	12,630
Loss (gain) on disposal of property, plant and equipment	10	**43**	(24)
Loss on write off of prepayments for exploration and evaluation expenditure	10	**10,458**	–
Amortisation of intangible assets		**31,092**	31,865
Amortisation of prepaid lease payment	17	**163**	–
Amortisation of deferred income	32	**(422)**	–
Depreciation		**35,326**	31,711
Fair value gain from held-for-trading investments	10	**(12,011)**	(29,750)
Fair value gain on derivative component of convertible notes	31	**(736,059)**	(42,392)
Impairment loss on property, plant and equipment	16	**6,037,959**	224,011
Impairment loss on prepaid lease payment	17	**14,136**	–
Impairment loss on intangible assets	19	**721,275**	28,416
Impairment loss on development in progress	20	**25,855**	981
Impairment loss on exploration and evaluation assets	21	**285,676**	–
Impairment loss on amounts due from associates		**9**	5,496
Impairment loss on available-for-sale financial asset	23	**464**	934
Loss on remeasurement of debt component of convertible notes		**–**	219,827
Equity-settled share-based payments	35	**–**	13,418
Operating cash flows before movements in working capital		**(162,933)**	(162,616)
(Increase) decrease in inventories		**(23,426)**	4,631
(Increase) decrease in trade receivables		**(7,982)**	29
Increase in other receivables, prepayments and deposits		**(5,349)**	(9,375)
Increase (decrease) in trade payables		**38,398**	(619)
Increase (decrease) in other payables and accruals		**14,843**	(37,480)
Net cash used in operations		**(146,449)**	(205,430)
Income tax paid		**–**	–
Net cash used in operating activities		**(146,449)**	(205,430)

	Notes	2015 HK$'000	2014 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(241,102)**	(130,899)
Proceeds received from disposal of property, plant and equipment		**2,885**	129
Purchase of intangible assets	19	**(1,625)**	–
Proceeds received from disposal of investment property	18	**–**	128,543
Purchase of prepaid lease payment	17	**(625)**	(15,651)
Government grant	32	**–**	12,665
Exploration and evaluation asset additions	21	**(140)**	(5,616)
Advances to associates		**(9)**	(171)
Repayment of advances from associates		**–**	3,120
Available-for-sale financial asset addition	23	**(464)**	(934)
Bank interest received		**229**	142
Net cash used in investing activities		**(240,851)**	(8,672)
Financing activities			
Repayment of other loan		**–**	(50,000)
Advances from a Director		**354,347**	288,561
Repayment of advances from a Director		**–**	(25,320)
Interest paid		**–**	(2,294)
Transaction costs on issuance of convertible notes		**(1,153)**	–
Net cash from financing activities		**353,194**	210,947
Net decrease in cash and cash equivalents		**(34,106)**	(3,155)
Cash and cash equivalents at beginning of the year		**48,566**	51,578
Effect of foreign exchange rate changes		**(1,377)**	143
Cash and cash equivalents at end of the year		**13,083**	48,566

Notes to the Consolidated Financial Statements

For the year ended 31 March 2015

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.

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group. While recognising that the Group had net liabilities of approximately HK$3,238.9 million and had net current liabilities of approximately HK$1,301.2 million at 31 March 2015 and incurred a loss of approximately HK$6,868.0 million for the year then ended, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future as Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and chairman and a Director of the Company, has provided facilities amounting to HK$1,900.0 million with maturity date on 31 March 2017, of which approximately HK$694.3 million was unutilised as at 31 March 2015. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

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

HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of the above new interpretation and amendments to standards in the current year has had no material effect on the amount reported and/or disclosures set out in these consolidated financial statements.

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

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

HKAS 1 (Amendments)	Disclosure Initiative[5]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants[5]
HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions[1]
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements[5]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010–2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011–2013 Cycle[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012–2014 Cycle[5]
HKFRS 9	Financial Instruments[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception[5]
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations[5]
HKFRS 14	Regulatory Deferral Accounts[4]
HKFRS 15	Revenue from Contracts with Customers[6]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 July 2014 with limited exception
4 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 January 2017

The Directors anticipate that the application of the above new or revised standards and amendments to existing standards 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, development in progress and prepaid lease payment related to the Khushuut mine operations (collectively referred to as "**Khushuut Related Assets**"). For the purposes of impairment testing, the Khushuut Related Assets are treated as a cash generating unit, which represents the Group's coking coal mining operation in Western Mongolia. The recoverable amount of the Khushuut Related Assets has been determined based on a value-in-use calculation. The key assumptions used in the value-in-use calculation are current selling price for coking coal of US$94 per tonne, growth rate of 3.04%, discount rate of 17.36% and estimated timeline for commercial coal production.

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$6,799,225,000 (2014: HK$253,408,000) 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 2015

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

During the year, the Group appointed an overburden removal contractor in April 2014 and a coal extraction contractor in July 2014 for the Khushuut Coal Mine. Commercial coal production was resumed in the last quarter of 2014. However, the mining operations have been affected by the unfavourable market conditions and the continuous decline in price of coking coal in the People's Republic of China (the "**PRC**"). Low coking coal price has a negative impact on the scale of the production. As part of the Group's austerity measures, subsequent to the financial year ended 31 March 2015, the Group has decided to scale down the overburden removal and other mining works so as to alleviate the operating expenses and cash outflow. Pursuant to this, the Group requested the overburden removal contractor to temporarily suspend its works until 31 December 2015 and proposed the settlement method of its service fees but no mutually acceptable solution was reached. On 25 May 2015, the Group issued a notice of termination to the overburden removal contractor. The termination will be effective on 24 July 2015. The Group also discussed with the coal extraction contractor who has agreed to revise the production plan and to lower its service fees as proposed.

The reasons for such impairment loss being recognised in profit or loss this year are mainly due to a sharp decline in the price of coking coal which has dropped by approximately 30% compared to that of previous financial year ended 31 March 2014 and the current delay in the production plan in the short-term in response to the weak market conditions. The Group has currently scaled down its production as the low coking coal price under the current unfavourable market conditions means that it is not economically viable to continue production in large scale after taking into account the significant transportation costs that are necessary to be incurred. The Directors only expect to ramp up production in 2016 once market prices recover and then achieve full production in 2019. This has had a significant impact on the value-in-use assessment performed by the Directors in the current year with a reduction in the cash flows expected to be received (due to the decrease in expected selling prices compared to prior periods) and a delay in the timing of receipt of the cash flows expected by the Company (resulting from the current low production scale).

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

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 main reasons for such a significant impairment loss being recognised in profit or loss during the year ended 31 March 2014 are due to changes in cost estimation based on currently available information and adjustment of the discount rate reflecting the latest market rate.

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 certain financial instruments which are measured at fair value as explained in the accounting policies set out below.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

Basis of consolidation

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

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

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

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

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

All intra-group 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

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

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

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

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

Revenue recognition

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

Coal sales

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

Interest income

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Rental income

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

Foreign currencies

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

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

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

Mining structures

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

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

Mineral properties

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair values. Gains or losses arising from changes in the fair value of the investment properties 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 is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

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

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

Development in progress

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

Prepaid lease payment

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Inventories

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

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

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

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

Financial instruments

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

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

Subsequent to initial recognition, held for trading investments are measured at fair value, with changes in fair value arising from remeasurement recognised directly in the consolidated statement of profit or loss in the period in which they arise. The net gain or loss recognised in the consolidated statement of profit or loss includes any dividend or interest earned on the financial assets. Fair value is determined in the manner described in Note 28.

Available-for-sale financial assets

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

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

Loans and receivables

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

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

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

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 35 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Other financial liabilities

Trade payables, other payables, advances from a Director and convertible notes and other financial liability 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.

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

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

Reserve estimates *(Continued)*

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 2015, fair value of derivative components of the convertible notes is HK$1,181,324,000 (2014: HK$54,419,000).

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 current selling price for coking coal, growth rate, discount rate and estimate timeline for commercial coal production. During the year ended 31 March 2015, an impairment amounting to HK$6,799,225,000 (2014: HK$253,408,000) 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.

As at 31 March 2015, the carrying value of Khushuut Related Assets is HK$950,040,000 (net of accumulated impairment loss of HK$14,787,565,000 (2014: carrying value of HK$7,605,000,000, net of accumulated impairment loss of HK$7,988,340,000).

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 disclosed in Note 38(a), convertible notes and other financial liability disclosed in Note 31, 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

	2015 HK$'000	2014 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	**29,132**	55,066
Available-for-sale financial asset	**–**	–
Held-for-trading investments	**68,289**	56,278
Financial liabilities		
Measured at amortised cost	**3,148,069**	4,360,534
Embedded derivative component of convertible notes	**1,181,324**	54,419

7b. Financial risk management objectives and policies

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

Market risk

(i) Currency risk

The Group mainly operates in Hong Kong, PRC 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, convertible notes and other financial liability denominated in currencies other than functional currency of the relevant group entities.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

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

	Liabilities		Assets	
	2015 HK$'000	2014 HK$'000	**2015 HK$'000**	2014 HK$'000
Hong Kong Dollars ("**HK$**")	**2,921,727**	4,237,410	**4,097**	3,335
Renminbi ("**RMB**")	**83,258**	73,113	**10,806**	14,873
Mongolian Tugrik ("**MNT**")	**49,955**	6,966	**6,255**	10,264

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% (2014: 5%) increase and decrease in US$ against the relevant foreign currencies. 5% (2014: 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% (2014: 5%) against RMB and MNT respectively. For a 5% (2014: 5%) strengthen of US$ against RMB and MNT respectively, there would be an equal and opposite impact on the loss, vice versa.

	RMB		MNT	
	2015 HK$'000	2014 HK$'000	**2015 HK$'000**	2014 HK$'000
(Increase) decrease in loss for the year *(Note)*	**(3,623)**	(2,912)	**(2,185)**	165

Note:

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

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 and other financial liability (see Note 31). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 29) and advances from a Director.

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 prime rate in relation to advances from a Director.

Sensitivity analysis

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

As at 31 March 2015, if interest rates had increased/decreased by 50 basis points and all other variables were held constant, the Group's loss for the year would have increased/decreased by HK$5,403,000 (2014: HK$3,631,000). The Group has no other significant interest rate risk.

(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 2015 would decrease/increase by HK$3,414,000 (2014: HK$2,814,000) 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 2015, the investment has been fully impaired.

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)

For the year ended 31 March 2015, the Company is required to estimate the fair value of the derivative component of the convertible notes, including conversion options, with changes in fair value to be recognised in the consolidated statement of profit or loss as long as the convertible notes are outstanding. The fair value will be affected either positively or negatively, amongst others, by the changes in the Company's share price, share price volatility and risk free rate.

Sensitivity analysis

If the listed share price of the Company had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the year would increase by HK$61,844,000 (2014: HK$5,058,000)/decrease by HK$61,843,000 (2014: HK$8,298,000), 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$9,637,000 (2014: HK$4,578,000)/decrease by HK$1,583,000 (2014: loss for the year would decrease by HK$8,640,000), as a result of changes in fair value of the derivative component of the convertible notes.

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

Credit risk

As at 31 March 2015, 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. The amount of net current liabilities is HK$1,301,180,000 (2014: HK$4,287,652,000).

As at 31 March 2015, 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$694.3 million unutilised to meet the Group's future funding needs.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

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. To the extent that interest flows are floating rate, the undiscounted amounts are derived from interest rate at the end of the reporting period.

2015

	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 2015
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables *(Note 30)*	–	92,432	699	13,173	–	106,304	106,304
Other payables	–	60,078	1,159	64,323	20	125,580	125,580
Advances from a Director – floating rate *(Note 38(a))*	8%	1,205,662	–	–	–	1,205,662	1,205,662
Convertible notes (debt component) – fixed rate *(Note 31)*	19.96%	–	–	–	3,987,067	3,987,067	1,710,523
		1,358,172	1,858	77,496	3,987,087	5,424,613	3,148,069

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 38(a))*	8%	780,210	–	–	–	780,210	780,210
Other financial liability – floating rate *(Note 31(c))*	3.5%	–	–	320,623	–	320,623	316,633
Convertible notes (debt component) – fixed rate *(Note 31)*	–	2,400,116	–	495,358	–	2,895,474	2,889,476
		3,494,071	1,424	875,027	–	4,370,522	4,360,534

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

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

7c. Fair value measurements of financial instruments

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

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

Financial assets/ financial liabilities	Fair value as at 31 March 2015	2014	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$68,289,000**	Listed equity securities: HK$56,278,000	Level 1	– Quoted bid prices in an active market	N/A	N/A
2) Embedded derivatives component of convertible notes	**HK$1,181,324,000**	HK$54,419,000	Level 3	– Binomial Valuation Model – The key inputs are stock price, exercise price, option life, risk free rate, volatility and dividend yield	– Volatility is 183.60% (2014: ranging from 73% to 110%)	– A slight increase in the volatility would result in significant higher fair value measurement, and vice versa. *(Note)*

Note: Sensitivity analysis is performed in Note 7b.

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

Fair value measurements and valuation processes

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

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

7. FINANCIAL INSTRUMENTS *(Continued)*

7c. Fair value measurements of financial instruments *(Continued)*

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

Fair value measurements and valuation processes (Continued)

Reconciliation of Level 3 fair value measurements of financial liabilities

	Embedded derivatives component of convertible notes HK$'000
At 1 April 2013	96,811
Unrealised fair value gain recognised in the consolidated statement of profit or loss	(42,392)
At 31 March 2014	54,419
Initial recognition	1,862,964
Unrealised fair value gain recognised in the consolidated statement of profit or loss	(736,059)
At 31 March 2015	**1,181,324**

7d. Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

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

8. REVENUE AND SEGMENT INFORMATION

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

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

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 2015

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

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)*		(65,037)
Interest income		19
Other gains and losses		(190,808)
Fair value gain on derivative component of convertible notes		42,392
Impairment loss on available-for-sale financial asset		(934)
Impairment loss on amounts due from associates		(5,496)
Finance costs		(375,260)
Loss before taxation		(1,038,124)

Note:

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

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

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

As at 31 March 2015

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

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 and other financial liability	3,260,528
Advances from a Director	780,210
Other unallocated liabilities *(Note b)*	238,834
Consolidated total liabilities	4,428,111

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.

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

	2015 HK$'000	2014 HK$'000
Capital additions	**242,287**	157,851
Amortisation of intangible assets	**31,063**	31,865
Interest income	**225**	123
Depreciation of property, plant and equipment	**34,884**	30,315
Impairment loss on property, plant and equipment	**6,037,959**	224,011
Impairment loss on intangible assets	**721,275**	28,416
Impairment loss on development in progress	**25,855**	981
Impairment loss on prepaid lease payment	**14,136**	–
Loss on write off of property, plant and equipment	**39,406**	155
Write off of exploration and evaluation assets	**–**	12,630
Write off of prepayments for exploration and evaluation expenditure	**10,458**	–

Geographical information

The Group's operations are principally located in Hong Kong, Mongolia and the PRC.

All the coal sales revenue is derived from the PRC based on location of customers.

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

	Non-current assets	
	2015 HK$'000	2014 HK$'000
Hong Kong	**2,533**	1,941
Mongolia	**937,589**	7,811,091
The PRC	**25,030**	115,332
	965,152	7,928,364

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:

	2015 HK$'000	2014 HK$'000
Customer A	**12,245**	–
Customer B	**–**	498
	12,245	498

9. OTHER INCOME

	2015 HK$'000	2014 HK$'000
Interest income	**229**	142
Government grant	**422**	–
Sundry income	**1,498**	180
	2,149	322

10. OTHER GAINS AND LOSSES

	2015 HK$'000	2014 HK$'000
Fair value gain on held-for-trading investments	**12,011**	29,750
Loss on write off of property, plant and equipment	**(39,413)**	(155)
Loss on write off of exploration and evaluation assets *(Note 21)*	**(140)**	(12,630)
Loss on write off of prepayments for exploration and evaluation expenditure *(Note 24)*	**(10,458)**	–
(Loss) gain on disposal of property, plant and equipment	**(43)**	24
Net exchange loss	**(5,777)**	(4,190)
Loss on remeasurement of debt component of convertible notes	**–**	(219,827)
	(43,820)	(207,028)

11. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Interest on borrowings wholly repayable within five years:		
Interest on:		
Advances from a Director *(Note 38(a))*	**71,105**	46,956
Other financial liability *(Note 31(c))*	**6,997**	6,900
Convertible notes after remeasurement	**61,642**	53,455
Effective interest expense on convertible notes *(Note 31)*	**107,509**	267,949
	247,253	375,260

12. LOSS BEFORE TAXATION

	2015 HK$'000	2014 HK$'000
Loss before taxation has been arrived at after charging/(crediting):		
Directors' emoluments *(Note 14(a))*	**6,757**	9,824
Other staff costs:		
Salaries and other benefits	**47,118**	57,969
Retirement benefits scheme contributions (excluding contributions for Directors)	**4,725**	5,075
Total staff costs (including equity-settled share-based payments)	**58,600**	72,868
Amortisation of intangible assets	**31,092**	31,865
Depreciation of property, plant and equipment	**35,326**	31,711
Less: loss on suspension of production (included in other expenses)	**(22,603)**	(55,734)
Less: amortisation and depreciation capitalised in inventories	**(35,303)**	–
	8,512	7,842
Amortisation of prepaid lease payment	**163**	–
Auditor's remuneration	**3,345**	3,185
Rental income (net of negligible outgoing)	**(2,133)**	–
Cost of inventories recognised as an expense (including write down of inventories of nil (2014: HK$4,134,000)	**28,649**	4,632
Operating lease rental in respect of office premises	**7,769**	11,721

13. INCOME TAX EXPENSE

	2015 HK$'000	2014 HK$'000
Current tax	–	–
Deferred tax *(Note 33)*	–	–
	–	–

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

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

Mongolian corporate income tax 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:

	2015 HK$'000	2014 HK$'000
Loss before taxation	(6,868,030)	(1,038,124)
Calculated at a tax rate of 16.5%	(1,133,225)	(171,290)
Tax effect on income not subject to tax	(120,996)	(12,244)
Tax effect on expenses not deductible for tax purposes	1,147,832	165,735
Tax effect on deductible temporary differences not recognised	104,620	11,294
Tax effect on utilisation of deductible temporary differences not previously recognised	(3,600)	—
Tax effect on tax loss not recognised	5,369	6,505
Income tax expense	–	–

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

(a) Directors' and chief executive's emoluments

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

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

The remuneration of each of the Directors and the chief executive for the year ended 31 March 2014 is as follows:

Name of Directors	Fees HK$'000	Salaries HK$'000	Other benefits HK$'000	Equity-settled share-based payments HK$'000	Employer's contribution to MPF Scheme HK$'000	Total HK$'000
Executive Directors						
Lo Lin Shing, Simon	–	–	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

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

During the two years ended 31 March 2015 and 2014, 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 (2014: two) were Directors of the Company whose emoluments are included in Note (a) above. The emoluments of the remaining three (2014: three) highest paid individuals during the year are as follows:

	2015 HK$'000	2014 HK$'000
Basic salaries, other allowances and benefits in kind	**5,213**	10,089
Bonus	**500**	–
Contributions to MPF Scheme	**47**	15
Equity-settled share-based payments	**–**	4,439
	5,760	14,543

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2015**	2014
HK$1,500,001–HK$2,000,000	**2**	–
HK$2,000,001–HK$2,500,000	**–**	–
HK$2,500,001–HK$3,000,000	**1**	–
HK$3,500,001–HK$4,000,000	**–**	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:

	2015 HK$'000	2014 HK$'000
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	**6,868,030**	1,038,124

	2015 '000	2014 '000 (Restated)
Number of shares		
Number of ordinary shares in issue for the calculation of basic and diluted loss per share *(Note a)*	**1,689,137**	1,689,137

Notes:

(a) The number of shares for the purposes of calculating the basic and diluted loss per share for the years ended 31 March 2015 and 2014 have been adjusted to reflect the impact of Capital Reorganisation as defined and set out in Note 34.

(b) 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 assumed exercise or conversion would result in a decrease in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Mining structures HK$'000	Mineral properties *(Note)* HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Plant, machinery and other equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST									
At 1 April 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
Exchange adjustments	**–**	**(2,189)**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2,191)**
Additions	**135,145**	**–**	**89,323**	**60**	**2,081**	**509**	**6,237**	**7,747**	**241,102**
Written off	**–**	**–**	**(43,539)**	**–**	**(11)**	**–**	**(6,806)**	**(420)**	**(50,776)**
Reclassification between categories	**18,623**	**–**	**(245,336)**	**–**	**–**	**676**	**225,343**	**694**	**–**
Disposals	**–**	**–**	**–**	**–**	**(13)**	**(9)**	**(52)**	**(4,335)**	**(4,409)**
At 31 March 2015	**657,816**	**12,948,859**	**52,558**	**12,785**	**7,767**	**8,895**	**262,796**	**93,750**	**14,045,226**
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
At 1 April 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 recognised in profit or 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
Exchange adjustments	**–**	**(5)**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(7)**
Charge for the year	**4,185**	**6,744**	**–**	**477**	**840**	**637**	**11,119**	**11,324**	**35,326**
Written off	**–**	**–**	**(10,798)**	**–**	**(3)**	**–**	**(142)**	**(420)**	**(11,363)**
Reclassification between categories	**–**	**–**	**(3,182)**	**–**	**–**	**–**	**3,182**	**–**	**–**
Disposals	**–**	**–**	**–**	**–**	**(13)**	**(9)**	**(1)**	**(1,401)**	**(1,424)**
Impairment loss recognised in profit or loss *(Note 3)*	**326,943**	**5,480,454**	**9,929**	**–**	**–**	**–**	**204,557**	**16,076**	**6,037,959**
At 31 March 2015	**612,133**	**12,183,088**	**51,170**	**12,394**	**5,714**	**6,297**	**234,103**	**83,923**	**13,188,822**
CARRYING VALUE									
At 31 March 2015	**45,683**	**765,771**	**1,388**	**391**	**2,053**	**2,598**	**28,693**	**9,827**	**856,404**
At 31 March 2014	223,043	6,255,153	196,889	808	820	2,050	22,686	31,720	6,733,169

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 2015, four mining concessions (licence no. 2913A, 4322A, 11888A, and 15289A) owned by MoEnCo LLC ("**MoEnCo**"), a wholly-owned subsidiary of the Company, 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. According to the best knowledge of the management, there was also no revocation of these licences as at 31 March 2015. 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. During the year ended 31 March 2015, 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. As at the date of these consolidated financial statements are authorised for issue, according to the best knowledge of the management, the Mongolia Parliament has not planned to include the Khusuut Coal Mine in the proposed list of Strategic Deposits. 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$6,799 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

	2015 HK$'000	2014 HK$'000
At beginning of the year	**15,651**	–
Additions	**625**	15,651
Amortisation	**(163)**	–
Impairment loss recognised in profit or loss	**(14,136)**	–
Exchange alignment	**(2)**	–
At end of the year	**1,975**	15,651
Analysed for reporting purposes as:		
Current assets	**40**	–
Non-current assets	**1,935**	15,651
At end of the year	**1,975**	15,651

Prepaid lease payment represents the medium term land use right in Xinjiang, the PRC. The Group is in the process of obtaining the land use right certificate.

18. INVESTMENT PROPERTY

	2015 **HK$'000**	2014 HK$'000
At beginning of the year	**–**	124,900
Disposals	**–**	(128,543)
Exchange adjustment	**–**	3,643
At end of the year	**–**	–

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.

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 2013 and 31 March 2014	2,323	1,906,297	1,908,620
Additions	**1,625**	**–**	**1,625**
At 31 March 2015	**3,948**	**1,906,297**	**1,910,245**
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 April 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
Charge for the year	**361**	**30,731**	**31,092**
Impairment loss recognised in profit or loss *(Note 3)*	**–**	**721,275**	**721,275**
At 31 March 2015	**2,680**	**1,805,515**	**1,808,195**
CARRYING VALUE			
At 31 March 2015	**1,268**	**100,782**	**102,050**
At 31 March 2014	4	852,788	852,792

19. INTANGIBLE ASSETS *(Continued)*

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, 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.

20. DEVELOPMENT IN PROGRESS

	2015 **HK$'000**	2014 HK$'000
At beginning of the year	**29,468**	30,449
Impairment loss recognised in profit or loss *(Note 3)*	**(25,855)**	(981)
At end of the year	**3,613**	29,468

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 2013	285,676	7,014	292,690
Additions	–	5,616	5,616
Written off	–	(12,630)	(12,630)
At 31 March 2014	285,676	–	285,676
Additions	**–**	**140**	**140**
Written off *(Note c)*	**–**	**(140)**	**(140)**
Impairment loss recognised in profit or loss	**(285,676)**	**–**	**(285,676)**
At 31 March 2015	**–**	**–**	**–**

Notes:

*(a) The balance of mining and exploration rights solely represents an exploration concession of around 2,986 hectares in Western Mongolia for ferrous resources. This iron ore exploration concession has been affected by the MPL. Zvezdametrika LLC ("**Z LLC**"), a wholly-owned subsidiary of the Company which owns the iron ore exploration concession, received a notice from the MRAM during the year ended 31 March 2010 about the potential revocation of its exploration concession under the MPL and Z LLC was requested to submit the estimated compensation for termination of licences with supporting documents. After taking legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRAM's request. The Group's legal advisers have confirmed that their interpretation of the relevant legislation is that, following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licensed area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. According to the best knowledge of the management, there was no revocation of its licence at 31 March 2015.*

As at 31 March 2015, only limited exploration works were done on the iron ore concession. During the year ended 31 March 2015, the condition of the iron ore market in China became considerably more unfavourable due to the significant drop in iron ore prices and the continuing fall in demand. In view of the present market sentiment, the development and production costs are expected to be high which will be unlikely to achieve a positive return for the Group. Further, the exploration and the ongoing development of the iron mine would require additional capital by the Group and increase the Group's financial pressure in addition to the need for its coal mining business. Based on the aforesaid, the management is of the view that it is not in the Group's interest to develop and retain the iron mine and has decided to concentrate the Group's resources on the re-commencement of commercial production of the Khushuut Coal Mine. In view of the present pessimistic business outlook of the iron ore industry and the significant capital investment required to develop the iron ore concession, the management of the Group is of the opinion that it is unlikely to identify a potential purchaser to acquire the iron ore concession in its current condition (also taking into account the uncertainties of the application of the MPL to the concession), before the exploration licence expires in October 2015. Also, based on the research performed by the management during the current year, minimal transactions in the market in Mongolia for iron ore concessions were recorded due to the fact that current market conditions are making investment in smaller iron ore concessions uneconomical (in particular those in more remote regions without established infrastructure). The management has therefore determined that the recoverable amount of this iron ore exploration concession, if any, is likely to be minimal and decided that the entire carrying amount was impaired during the year ended 31 March 2015.

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) above.

For the year ended 31 March 2015, 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 and therefore might potentially be affected by the MPL (2014: 2). As the carrying amounts have been fully impaired, the management considers this would not have a significant financial impact to the Group.

(c) Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for three successive periods of 3 years each and mining licences for two successive periods of 20 years each. During the year ended 31 March 2015, the Group has written off all costs related to the exploration and mining licences including those mentioned in (b) above as the management considers that the respective exploration licences are no longer fruitful. As a result, the corresponding evaluation and exploration assets are written off.

22. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

	2015 HK$'000	2014 HK$'000
Cost of associates		
Unlisted shares, at cost	**2,839**	2,839
Share of results	**(2,839)**	(2,839)
	–	–
Amounts due from associates	**10,933**	10,924
Impairment losses	**(10,933)**	(10,924)
	–	–

Details of the associates at 31 March 2015 and 2014 are as follows:

Name	**Place of incorporation**	**Principal place of operation**	**Particulars of issued share capital**	**Interest held 2015**	**Interest held 2014**	**Principal activity**
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**")[1]	Singapore	Singapore	10 shares of S$1.00 each	**20%**	20%	Investment holding

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

22. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

(Continued)

There is no commitment contracted but not provided for in respect of further capital investment in associates as at 31 March 2015 (2014: Nil).

The amounts due from associates as at 31 March 2015 include shareholder's loans to MoOiCo (2014: MoOiCo). That amount is unsecured, interest free and repayable on demand.

Aggregate information of associates that are not individually material

	2015 HK$'000	2014 HK$'000
Total assets	**926**	929
Total liabilities	**(37,718)**	(37,948)
Net liabilities	**(36,792)**	(37,019)
Group's share of net assets of associates	**–**	–
Revenue	**–**	–
Profit (loss) for the year	**227**	(5,208)
Other comprehensive income for the year	**–**	5,811
Total comprehensive income for the year	**227**	603
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 losses of those associates as at year ended 31 March, extracted from the relevant management accounts of associates, both for the year and cumulatively, are as follows:

	2015 HK$'000	2014 HK$'000
Unrecognised share of profit of an associate for the year	**45**	93
Cumulative unrecognised share of losses of associates	**4,520**	4,565

23. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2015 HK$'000	2014 HK$'000
At beginning of the year	–	–
Addition	464	934
Less: impairment loss recognised in profit or loss	(464)	(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 2015, the Group had no capital commitments in respect of the investment.

24. PREPAYMENTS FOR EXPLORATION AND EVALUATION EXPENDITURE

At 31 March 2014, the amounts represented prepayments for exploration drilling. It was written off during the year ended 31 March 2015.

25. TRADE RECEIVABLES

	2015 HK$'000	2014 HK$'000
Trade receivables	7,982	–

The Group allows a credit period of 35 days to its customer. 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.

	2015 HK$'000	2014 HK$'000
1–30 days	7,982	–

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. All trade receivables are neither past due nor impaired and relates to those debtors with satisfactory credit quality under the management's assessment and with good past repayment record.

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

26. INVENTORIES

	2015 HK$'000	2014 HK$'000
Coal	**19,612**	–
Materials and supplies	**4,126**	491
	23,738	491

27. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2015 HK$'000	2014 HK$'000
Other receivables	**4,033**	3,969
Prepayments	**5,453**	3,844
Deposits	**5,047**	2,847
Others	**12,372**	11,799
	26,905	22,459

28. HELD-FOR-TRADING INVESTMENTS

	2015 HK$'000	2014 HK$'000
Equity securities of companies listed in Hong Kong	**68,289**	56,278

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

29. CASH AND CASH EQUIVALENTS

	2015 HK$'000	2014 HK$'000
Bank balances and cash	**13,083**	48,566

There was no short-term deposit placed for both years. 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:

	2015 HK$'000	2014 HK$'000
0 to 30 days	**35,459**	14,642
31 to 60 days	**5,620**	806
61 to 90 days	**360**	–
Over 90 days	**64,865**	52,688
	106,304	68,136

31. CONVERTIBLE NOTES AND OTHER FINANCIAL LIABILITY

	2015 HK$'000	2014 HK$'000
Convertible notes		
– not yet expired *(Note a)*	**2,891,847**	2,454,535
– expired with extension *(Note b)*	**–**	489,360
Other financial liability *(Note c)*	**–**	316,633
	2,891,847	3,260,528

(a) Convertible notes not yet expired

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

	Debt component		Derivative component		Total	
	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
At beginning of the year	**2,400,116**	2,851,129	**54,419**	96,811	**2,454,535**	2,947,940
Issuance of convertible notes	**1,604,051**	–	**1,862,964**	–	**3,467,015**	–
Interest charge	**107,509**	267,949	**–**	–	**107,509**	267,949
Interest payable included in other payable	**–**	(145,151)	**–**	–	**–**	(145,151)
Transaction costs on issuance of convertible notes	**(1,153)**	–	**–**	–	**(1,153)**	–
Fair value gain on derivative component	**–**	–	**(736,059)**	(42,392)	**(736,059)**	(42,392)
Reclassified to other financial liability *(Note 31(c))*	**–**	(793,638)	**–**	–	**–**	(793,638)
Remeasurement of the debt component	**–**	219,827	**–**	–	**–**	219,827
Redemption	**(2,400,000)**	–	**–**	–	**(2,400,000)**	–
At end of the year	**1,710,523**	2,400,116	**1,181,324**	54,419	**2,891,847**	2,454,535

31. CONVERTIBLE NOTES AND OTHER FINANCIAL LIABILITY *(Continued)*

(a) Convertible notes not yet expired *(Continued)*

Analysed for reporting purposes as:

	2015 HK$'000	2014 HK$'000
Current liabilities *(Note)*	–	2,454,535
Non-current liabilities	2,891,847	–
	2,891,847	2,454,535

Note:

*In November 2013, as the Company defaulted on the redemption of certain convertible notes on the maturity date which triggered the Company's potential early redemption obligation under all other existing convertible notes, the liabilities relating to the HK$200 million 5% convertible note issued to Golden Infinity Co., Ltd. ("**Golden Infinity**") (the "**5% GI Convertible Note**") and HK$200 million 5% convertible note issued to Chow Tai Fook Nominee Limited ("**CTF**") (the "**5% CTF Convertible Note**") and HK$2 billion 3% convertible note issued to CTF (the "**3% CTF Convertible Note**") were reclassified as current liabilities during the year ended 31 March 2014.*

*On 19 September 2014, the Company entered into the subscription agreements with CTF, Golden Infinity and the holders of the 3.5% convertible notes with principal amount in aggregate amount of HK$466.8 million (the "**3.5% OZ Convertible Note**"), who conditionally agreed to subscribe for new 5-year 3% convertible notes at the subscription price which would be used for full settlement of the outstanding principal amount and accrued interest of the 3.5% GI Convertible Note (as defined in Note 31(c)) included in the other financial liability, the 3% CTF Convertible Note, the 3.5% OZ Convertible Note and for early redemption of the outstanding principal amount and accrued interest of the 5% CTF Convertible Note and the 5% GI Convertible Note.*

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

2014 Convertible Notes with maturity date 21 November 2019

The 2014 Convertible Notes with principal amount of HK$3,467,015,000 has a maturity period of five years from the issue date to 21 November 2019. It can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$0.92 convertible note at the holders' option at any time between the issue date and the maturity date. The outstanding principal amount would be redeemed at par value on the maturity date or at the issuer's option redeemed at par plus outstanding coupon payment at any time between the issue date and the maturity date. Interest of 3% per annum will be paid in arrears on the maturity date.

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

31. CONVERTIBLE NOTES AND OTHER FINANCIAL LIABILITY *(Continued)*

(a) Convertible notes not yet expired *(Continued)*

2014 Convertible Notes with maturity date 21 November 2019 (Continued)

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

	21 November 2014	**31 March 2015**
Stock price	HK$0.63	**HK$0.34**
Exercise price	HK$0.92	**HK$0.92**
Volatility *(Note i)*	102.00%	**183.60%**
Dividend yield	0%	**0%**
Option life *(Note ii)*	5 years	**4.65 years**
Risk free rate	1.23%	**0.99%**

Notes:

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

ii) The option life as at 31 March 2015 is based on the maturity date of the notes.

The fair value of the 2014 Convertible Notes with embedded derivative were determined with reference to a valuation report carried out by an Independent Valuer. As at 31 March 2015, the debt component of the convertible note is HK$1,710,523,000 and the fair value of the derivative component of the convertible note is HK$1,181,324,000. No conversion was noted during the year ended 31 March 2015.

5% GI Convertible Note & 5% CTF Convertible Note with maturity date 8 January 2016

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

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

Note:

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

31. CONVERTIBLE NOTES AND OTHER FINANCIAL LIABILITY *(Continued)*

(b) Convertible notes expired with extension

3% CTF Convertible Note with maturity date 16 June 2014

The 3% CTF Convertible Note with principal amount of HK$2 billion was unsecured and carried interest at a coupon rate of 3%. It expired on 16 June 2014 and the Company had not redeemed the principal and repaid the interest thereon on its maturity, therefore, the Company was in breach of the redemption requirement under the 3% CTF Convertible Note. CTF had agreed to grant the Company a moratorium on repayment of the outstanding principal and interest under the expired note from 16 June 2014 to 12 August 2014 (the "**Moratorium Period**") and the Moratorium Period had been further extended to 19 September 2014.

On 21 November 2014, the outstanding principal and interest was of 3% CTF Convertible Note was fully settled by issuance of 2014 Convertible Notes (details please refer to Note 31(a)).

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

	31 March 2014
Stock price	HK$0.22
Exercise price	HK$2.00
Volatility	110%
Dividend yield	0%
Option life	0.21 years
Risk free rate	0.13%

3.5% OZ Convertible Note with maturity date 12 November 2013

3.5% OZ Convertible Note was due on 12 November 2013 and its repayment date was extended to a period of six months until 12 May 2014 with a fixed interest rate of 3.5% per annum. The repayment date of the 3.5% OZ Convertible Note was further extended to 19 September 2014.

On 21 November 2014, the outstanding principal and interest of 3.5% OZ Convertible Note were fully settled by issuance of 2014 Convertible Notes (details please refer to Note 31(a)).

(c) Other financial liability

As at 31 March 2014, the amount represented the 3.5% convertible note to Golden Infinity with a principal value of HK$300 million (the "**3.5% GI Convertible Note**") which was reclassified from convertible notes to other financial liability on its maturity during the year ended 31 March 2014. The loan was unsecured and with interest at fixed rate of 3.5%.

On 21 November 2014, the outstanding principal and interest of 3.5% GI Convertible Note was fully settled by issuance of 2014 Convertible Notes (details please refer to Note 31(a)).

32. DEFERRED INCOME

	2015 HK$'000	2014 HK$'000
At beginning of the year	**12,665**	–
Grant *(Note)*	**–**	12,665
Credit to profit or loss *(Note 9)*	**(422)**	–
Exchange adjustment	**(1)**	–
At end of the year	**12,242**	12,665
Analysed for reporting purposes as:		
Current liabilities	**1,266**	–
Non-current liabilities	**10,976**	12,665
	12,242	12,665

Note:

During the year ended 31 March 2014, the Group received a government grant amounting to HK$12,665,000 (equivalent to approximately RMB10.1 million) from the PRC government for the construction of the washing plant in Xinjiang, the PRC.

33. DEFERRED TAXATION

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 March 2015, estimated tax losses of the Group not utilised amounted to HK$629,107,000 (2014: HK$596,570,000). 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$501,930,000 (2014: HK$480,339,000) expiring within 4 years, the remaining balances have no expiry date.

At the end of the reporting period, the Group has deductible temporary differences of HK$2,013,471,000 (2014: HK$1,379,408,000) due to the impairment loss recognised on Khushuut Related Assets and HK$91,549,000 (2014: HK$113,367,000) 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.

34. SHARE CAPITAL

Authorised and issued share capital

	2015 HK$'000	2014 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.02 each *(Note)*	**300,000**	300,000

	Number of ordinary shares at HK$0.02 each	Amount HK$'000
Issued and fully paid:		
At 1 April 2013 and 31 March 2014	**6,756,547,828**	**135,131**
Share consolidation and Capital Reduction *(Notes (a) and (b))*	**(5,067,410,871)**	**(101,348)**
At 31 March 2015	**1,689,136,957**	**33,783**

Notes:

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

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

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

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

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

35. SHARE-BASED PAYMENT

Equity-settled share option scheme

Under the share option schemes adopted by the Company on 28 August 2002 ("**2002 Share Option Scheme**") and 30 August 2012 respectively, options were granted to certain Directors, employees and consultants of the Group entitling them to subscribe for shares of the Company. Options may be exercised at any time from the date of grant of the share options. The 2002 Share Option Scheme expired and was terminated on 27 August 2012. Upon the termination of the 2002 Share Option Scheme, no further options would be granted but the options granted prior to such termination continue to be valid and exercisable in accordance with provisions of the 2002 Share Option Scheme.

Of the share options granted, 20,000,000 share options were granted to consultants of the Group during the year ended 31 March 2014 which lapsed during the year ended 31 March 2015. As the fair value of the services cannot be estimated reliability, the Binominal Valuation Model has been used to estimate the fair value of the options.

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

	2015		2014	
	Weighted average exercise price per share HK$	**Number of share options**	Weighted average exercise price per share HK$	Number of share options
Exercisable at beginning of the year	**0.8615**	**132,800,000**	1.3886	67,300,000
Granted	**–**	**–**	0.3200	66,500,000
Lapsed	**0.6687**	**(46,000,000)**	0.3200	(1,000,000)
Adjusted for Capital Reorganisation	**2.8912**	**(65,100,000)**	–	–
Exercisable at end of the year	**3.8550**	**21,700,000**	0.8615	132,800,000

No share options were exercised during the year (2014: Nil).

35. SHARE-BASED PAYMENT *(Continued)*

Equity-settled share option scheme *(Continued)*

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

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

	Exercise price			Number of shares subject to options	
Date of grant	**Before Capital Reorganisation** HK$	**After Capital Reorganisation** HK$	**Exercisable period**	**2015** ***(Note)***	2014
9-4-2010	4.110	16.440	9-4-2010 to 8-4-2015	**2,700,000**	11,800,000
1-9-2011	0.810	3.240	1-9-2011 to 31-8-2014	**–**	5,000,000
29-2-2012	0.810	3.240	29-2-2012 to 28-2-2017	**7,625,000**	50,500,000
8-4-2013	0.320	1.280	8-4-2013 to 7-4-2018	**11,375,000**	65,500,000
				21,700,000	132,800,000

Note:

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

The fair values of options granted determined were as follow:

	8 April 2013
Option value (at grant date)	HK$13,417,593
Fair value per option (at grant date)	HK$0.2018
Significant inputs into the valuation model:	
Exercise price at grant date *(Note a)*	HK$0.32
Share price at grant date *(Note a)*	HK$0.31
Expected volatility *(Note b)*	84.18%
Risk-free interest rate	0.44%
Life of options	5 years
Expected dividend yield	0%
Valuation model applied	Binomial

Notes:

(a) 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.

(b) No expense in relation to share options granted was recognised during the year ended 31 March 2015 (2014: HK$13,418,000).

36. COMMITMENTS

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

(a) Commitments under operating leases

The Group as lessee

As at 31 March 2015, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of offices and staff quarters as follows:

	2015 HK$'000	2014 HK$'000
Not later than one year	**3,660**	7,766
Later than one year and not later than five years	**850**	2,555
	4,510	10,321

Operating leases related to offices and staff quarters with lease terms of between 1 to 5 years (2014: 1 to 5 years).

(b) Capital commitments

As at 31 March 2015, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to HK$67,014,000 (2014: HK$100,083,000). These commitments are for the following projects:

	2015 HK$'000	2014 HK$'000
Dry processing	**–**	4,065
Exploration drilling	**24,105**	24,105
Other exploration related commitments	**606**	277
Purchase of property, plant and equipment	**9,585**	7,539
Road construction	**13,569**	14,115
Road improvement and drilling equipment transport	**11,968**	11,968
Wash plant	**6,863**	37,521
Others	**318**	493
	67,014	100,083

37. CONTINGENT LIABILITIES

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

The former sole mining contractor issued two writ of summons on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK$93.7 million. In May 2015, the former sole mining contractor applied to Court to amend its statements of claim under the two writs by amending, among others, (i) the currency of the claims from Mongolian Tugrik to United States Dollars; and (ii) the amount of the claim to include the alleged contractor's fees up to October 2014. According to amended statement of claims, two writ of summons make the total claims at approximately HK$198.9 million, of which approximately HK$50.0 million (2014: HK$50.0 million) has been provided for in the consolidated financial statements as at 31 March 2015. 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 2015, the former sole mining contractor has proposed a mediation proceedings with the Company. Up to the date of approving these consolidated financial statements for issuance, there was no development.

As disclosed in Note 3 to the consolidated financial statements, the Group issued a notice of termination to the overburden removal contractor on 25 May 2015. Based on the Group's Mongolian legal advice, the Group may be required to pay approximately HK$7.8 million indemnity to the overburden removal contractor if the Group terminates the contract for convenience under the overburden removal services agreement. The management has considered the termination in its impairment assessment and no separate provision has been provided for in the consolidated financial statements for the year ended 31 March 2015 as the termination of contract (obligating event) took place after the reporting period.

38. RELATED PARTY TRANSACTIONS

(a) Advances from Mr. Lo

	2015 **HK$'000**	2014 HK$'000
Balance of advances	**1,205,662**	780,210
Interest charge for the year	**71,105**	46,956

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

38. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2015 HK$'000	2014 HK$'000
Convertible note payable	**452,347**	227,267
Other loan *(Note 31(c))*	**–**	316,633
Interest charge on convertible notes for the year	**12,250**	14,574
Interest charge on other loan for the year	**6,997**	6,133

Note:

Mr. Lo has a controlling interest in Golden Infinity. Details of the convertible notes and other loan due to Golden Infinity are set out in Note 31.

(c) Rental income received from a related party

	2015 HK$'000	2014 HK$'000
Related party	**2,133**	–

Note:

Mr. Lo is one of the directors of the related party.

(d) Key management compensation

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

	2015 HK$'000	2014 HK$'000
Basic salaries, other allowances and benefits in kind	**6,739**	5,369
Equity-settled share-based payments	**–**	4,440
Contributions to MPF Scheme	**18**	15
	6,757	9,824

Note:

During the year ended 31 March 2015, no share options were granted to the Directors (2014: 22,000,000). Options granted in previous year 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.

39. MAJOR NON-CASH TRANSACTIONS

Apart from the non-cash transactions disclosed in Note 31, the Group has no other major non-cash transactions for both years.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 March 2015 and 2014:

Name of subsidiaries	Place of incorporation/ establishment	Particulars of issued share capital/registered capital	Effective interest held 2015	Effective interest held 2014	Place of operation	Principal activities
Cyber Network Technology Limited*	British Virgin Islands	1 share of US$1.00	**100%**	100%	Hong Kong	Investment holding
Gamerian Limited*	British Virgin Islands	1 share of US$1.00	**100%**	100%	Hong Kong	Investment holding
Mongolia Energy Corporation (Greater China) Limited*	Hong Kong	2 shares with no par value (2014: 2 shares of HK$1.00 each) *(Note)*	**100%**	100%	Hong Kong	Management services
Virtue Team Investments Limited*	Hong Kong	1 share with no par value (2014: 1 share of HK$1.00) *(Note)*	**100%**	100%	Hong Kong	Management services
Mongolia Energy Corporation Services*	Hong Kong	2 shares with no par value (2014: 2 shares of HK$1.00 each) *(Note)*	**100%**	100%	Hong Kong	Provision of secretarial and nominee services
MoEnCo	Mongolia	1,010,000 shares of US$1.00 each	**100%**	100%	Mongolia	Minerals exploration and mining activities
Z LLC	Mongolia	100,000 shares of US$1.00 each	**100%**	100%	Mongolia	Holding iron ore exploration licence
烏魯木齊蒙富礦業有限公司#	The PRC	RMB11,927,724	**100%**	100%	The PRC	Provision of mining and exploration advisory service
新疆蒙科能源科技有限公司#	The PRC	RMB135,982,967	**100%**	100%	The PRC	Trading of coal and operation of wash plant

* *Subsidiaries directly held by the Company*

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

Note:

In accordance with the provisions of the new Hong Kong Companies Ordinance (Cap. 622) as from its commencement on 3 March 2014, the authorised share capital of a company and the par value of a company's share were abolished. As a result, these shares of these companies ceased to have a par value from 3 March 2014.

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

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

41. RETIREMENT BENEFITS SCHEME

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

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

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

Financial Information of the Company

	2015 HK$'000	2014 HK$'000
Assets		
Unlisted investments in subsidiaries	–	285,730
Amount due from subsidiaries	240,969	1,496,535
Other assets	766,522	6,244,750
Total assets	1,007,491	8,027,015
Liabilities		
Amount due to subsidiaries	205,430	205,434
Other liabilities	4,142,142	4,276,707
Total liabilities	4,347,572	4,482,141
Net (liabilities) assets	(3,340,081)	3,544,874
Financed by:		
Equity		
Capital and reserves attributable to owners of the Company		
Share capital	33,783	135,131
Reserves	(3,373,864)	3,409,743
	(3,340,081)	3,544,874

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 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
Loss for the year	–	–	–	(6,884,955)	(6,884,955)
Share option lapsed	–	–	(15,999)	15,999	–
Capital Reorganisation *(Note 34)*	(13,107,506)	3,252,299	–	9,956,555	101,348
Balance at 31 March 2015	–	3,451,893	43,199	(6,868,956)	(3,373,864)

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

	2011 HK$'000	2012 HK$'000	2013 HK$'000	2014 HK$'000	**2015 HK$'000**
Turnover					
Continuing operations	–	6,215	11,792	498	**12,259**
Discontinued operation	–	–	–	–	**—**
Loss attributable to owners of the Company	(310,750)	(4,832,172)	(3,698,818)	(1,038,124)	**(6,868,030)**
	(Restated)	(Restated)	(Restated)	(Restated)	
Loss per share (HK cents) *(Note)*					
– Basic	0.20	2.92	2.19	0.61	**4.07**
– Diluted	0.20	2.92	2.19	0.61	**4.07**

Assets and liabilities of the Group at March 31

	2011 HK$'000	2012 HK$'000	2013 HK$'000	2014 HK$'000	**2015 HK$'000**
Total assets	15,907,265	11,543,781	8,336,858	8,056,158	**1,105,189**
Less: total liabilities	(2,833,106)	(3,198,467)	(3,690,756)	(4,428,111)	**(4,344,040)**
Total net assets (liabilities)	13,074,159	8,345,314	4,646,102	3,628,047	**(3,238,851)**

Note: As a result of the capital reorganisation completed on 12 November 2014, figures for the years from 2010 to 2014 have been restated for comparative purpose.

Corporate Information

DIRECTORS

Executive Directors

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

Non-Executive Director

Mr. To Hin Tsun, Gerald

Independent Non-Executive Directors

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

COMPANY SECRETARY

Mr. Tang Chi Kei

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

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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