MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2014

The board (the "**Board**") of directors (the "**Directors**") of Mongolia Energy Corporation Limited (the "**Company**") announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 March 2014 (the "**Financial Year**") together with the comparative figures in the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2014

	Notes	**2014** *HK$'000*	2013 *HK$'000*
Revenue	4	**498**	11,792
Cost of sales		**(4,632)**	(261,863)
Gross loss		**(4,134)**	(250,071)
Other income		**322**	5,056
Other gains and losses	5	**(207,028)**	(12,333)
Other expenses	7	**(55,734)**	(31,860)
Administrative expenses		**(182,077)**	(179,025)
Fair value gain on derivative component of convertible notes		**42,392**	302,987
Impairment loss on property, plant and equipment	3	**(224,011)**	(2,749,126)
Impairment loss on intangible assets	3	**(28,416)**	(373,318)
Impairment loss on development in progress	3	**(981)**	(12,488)
Impairment loss on available-for-sale financial asset		**(934)**	—
Impairment loss on amounts due from associates		**(5,496)**	(2,512)
Finance costs	6	**(372,027)**	(388,743)
Loss before taxation	7	**(1,038,124)**	(3,691,433)
Income tax expense	8	**—**	(7,385)
Loss for the year		**(1,038,124)**	(3,698,818)
Loss for the year attributable to owners of the Company		**(1,038,124)**	(3,698,818)
Loss per share attributable to owners of the Company			
— basic and diluted loss per share *(HK cents)*	9	**(15.36)**	(54.74)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2014

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment		**6,733,169**	6,850,079
Investment property		**—**	124,900
Intangible assets		**852,792**	913,073
Development in progress		**29,468**	30,449
Exploration and evaluation assets		**285,676**	292,690
Interests in associates		**—**	—
Available-for-sale financial asset		**—**	—
Other asset		**1,150**	1,150
Prepayments for exploration and evaluation expenditure		**10,458**	10,458
Deposits for property, plant and equipment		**—**	6,508
Prepaid lease payment		**15,651**	—
		7,928,364	8,229,307
Current assets			
Trade receivables	10	**—**	29
Inventories		**491**	5,183
Other receivables, prepayments and deposits		**22,459**	14,963
Held-for-trading investments		**56,278**	26,528
Amounts due from associates		**—**	9,270
Cash and cash equivalents		**48,566**	51,578
		127,794	107,551
Current liabilities			
Trade payables	11	**68,136**	68,941
Other payables and accruals		**306,572**	152,335
Convertible notes	12	**2,454,535**	741,279
Advances from a Director		**780,210**	470,013
Other financial liabilities	13	**805,993**	51,527
		4,415,446	1,484,095
Net current liabilities		**(4,287,652)**	(1,376,544)
Total assets less current liabilities		**3,640,712**	6,852,763
Non-current liabilities			
Convertible notes	12	**—**	2,206,661
Deferred income	14	**12,665**	—
		12,665	2,206,661
Net assets		**3,628,047**	4,646,102
Financed by:			
Capital and reserves			
Share capital		**135,131**	135,131
Reserves		**3,492,916**	4,510,971
Equity attributable to owners of the Company		**3,628,047**	4,646,102

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment property and certain financial instruments which are measured at fair value as explained in the accounting policies set out in the annual report. Historical cost is generally based on the fair value of the consideration given in exchange of goods.

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

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group. While recognising that the Group had net current liabilities of approximately HK$4,287.7 million at 31 March 2014 and incurred a loss of approximately HK$1,038.1 million for the year then ended, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future giving that: (1) Mr. Lo Lin Shing, Simon ("Mr. Lo"), a substantial shareholder who has significant influence over the Group and chairman of the Company, has provided facilities amounting to HK$1,900.0 million with maturity date on 31 March 2016, of which approximately HK$1,119.8 million was unutilised as at 31 March 2014 and (2) the Company will exercise its endeavour to reach an acceptable debt restructuring with the holders of the convertible notes and other loan provider of the Company.

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

In the current financial year, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA:

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

Except as described below, the application of the new or revised HKFRSs in the current year has no material effect on the amount reported and/or disclosures set out in these consolidated financial statements.

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

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

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

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

Impact of the application of HKFRS 10

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

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

Impact of the application of HKFRS 12

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

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. IMPAIRMENT LOSS RECOGNISED ON KHUSHUUT MINE RELATED ASSETS

At the end of the reporting period, the Group engaged a qualified professional valuer (the "Independent Valuer"), who is not connected with the Group, to determine the recoverable amount of its property, plant and equipment, intangible assets and development in progress related to the Khushuut mine operations (collectively referred to as "Khushuut Related Assets"). For the purposes of impairment testing, the Khushuut Related Assets are treated as a cash generating unit, which represents the Group's coking coal mining operation in Western Mongolia. The recoverable amount of the Khushuut Related Assets has been determined based on a value in use calculation.

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

For the year ended 31 March 2014

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

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

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

For the year ended 31 March 2013

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

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

4. REVENUE AND SEGMENT INFORMATION

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

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

Segment revenue and result

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

For the year ended 31 March 2014

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

For the year ended 31 March 2013

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

Note:

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

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

Segment assets and liabilities

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

As at 31 March 2014

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

As at 31 March 2013

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

Note:

(a) Other unallocated assets mainly represent property, plant and equipment, intangible assets, exploration right for iron ore, other asset and other receivables, prepayments and deposits not for coal mining business.

(b) Other unallocated liabilities mainly represent other payables and accruals not for coal mining business.

Other segment information

For the year ended 31 March

Amounts included in the measure of segment loss or segment assets:

Coal mining

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

Note:

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

Geographical information

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

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

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

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

Note:

Non-current assets exclude financial instruments.

5. OTHER GAINS AND LOSSES

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

6. FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Interest on borrowings wholly repayable within five years:		
Interest on:		
Advances from a Director	**46,956**	33,499
Other financial liabilities *(Note 13)*	**13,122**	1,527
Convertible notes after remeasurement	**47,233**	—
Effective interest expense on convertible notes *(Note 12)*	**264,716**	353,717
	372,027	388,743

7. LOSS BEFORE TAXATION

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

8. INCOME TAX EXPENSE

	2014	2013
	HK$'000	*HK$'000*
Current tax	—	—
Deferred tax		
Charge for current year	—	7,385
	—	7,385

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

Mongolian corporate income tax is calculated at 10% at the estimated assessable profit (if any) for both years.

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

No provision for Hong Kong and overseas taxation has been made for both years as the Group has no assessable profit for both years.

9. LOSS PER SHARE

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

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

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

Note:

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

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

10. TRADE RECEIVABLES

	2014	2013
	HK$'000	*HK$'000*
Trade receivables	—	29

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

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

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

11. TRADE PAYABLES

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

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

12. CONVERTIBLE NOTES

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

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

HK$466.8 million 3.5% convertible notes

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

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

HK$400 million 5% convertible note issued to Golden Infinity and Chow Tai Fook Nominee Limited (the "CTF")

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

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

As the Company's default on redemption of the OZ Convertible Note also triggers the Company's potential early redemption obligation under existing convertible notes, the 5% GI & CTF Convertible Note has been remeasured to its redemption amount and reclassified as current liabilities in the consolidated statement of financial position.

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

	Debt component		**Derivative component**		**Total**	
	2014	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of the year	**2,851,129**	2,233,466	**96,811**	285,208	**2,947,940**	2,518,674
Initial recognition	**—**	284,715	**—**	114,590	**—**	399,305
Interest charge	**264,716**	353,717	**—**	—	**264,716**	353,717
Reclassified to other payable	**(145,151)**	—	**—**	—	**(145,151)**	—
Amortisation of transaction costs	**3,233**	6,053	**—**	—	**3,233**	6,053
Fair value gain on derivative component	**—**	—	**(42,392)**	(302,987)	**(42,392)**	(302,987)
Interest paid	**—**	(26,822)	**—**	—	**—**	(26,822)
Redesignated as other loans *(Note 13)*	**(793,638)**	—	**—**	—	**(793,638)**	—
Remeasurement of the debt component	**219,827**	—	**—**	—	**219,827**	—
At end of the year	**2,400,116**	2,851,129	**54,419**	96,811	**2,454,535**	2,947,940

Analysed for reporting purposes as:

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

13. OTHER FINANCIAL LIABILITIES

As at 31 March 2014, included in other financial liabilities are the GI Convertible Note of HK$339.2 million which was redesigned from convertible notes to other loan on its maturity (Note 12). The loan is unsecured, bears interest at a fixed rate of 3.5% per annum and is repayable on 12 August 2014.

In addition, included in other financial liabilities are the OZ Convertible Note of HK$466.8 million which was due on 12 November 2013 and its maturity date was extended to a period of 6 months until 12 May 2014 (Note 12) with at a fixed interest rate of 3.5% per annum. The maturity date of the OZ Convertible Note is further extended to 12 August 2014.

During the year ended 31 March 2013, the Company obtained a short term unsecured loan with principal amount of HK$50.0 million carried interest at Prime Rate per annum and it was fully settled during the year ended 31 March 2013.

14. DEFERRED INCOME

During the year, 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, PRC.

15. CONTINGENT LIABILITIES

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

The former sole mining contractor issued two writ of summons on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK$93.7 million of which approximately HK$50.0 million (2013: HK$50.0 million) has been provided for in the consolidated financial statements as at 31 March 2014. Based on the opinion provided by legal counsel of the Company, the Directors consider that the payment of the remaining balance is not probable. As of the year ended 31 March 2014, the former sole mining contractor has proposed a meditation proceeding with the Company, up to the date of approving this consolidated financial statements, the choice of the mediator and the venue are still under negotiation.

EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

The independent auditor of the Company has issued a disclaimer of opinion on the consolidated financial statements of the Group and an extract of independent auditor's report is as follows:

Basis for Disclaimer of Opinion

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

* *Being Note 1 in this announcement*

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

Disclaimer of Opinion

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

Emphasis of Matters

As disclosed in notes 16 and 20 to the consolidated financial statements, the Group owns a number of mining concessions in Western Mongolia for coal mining, four of which the Mineral Resources Authority of Mongolia has notified the Group are within the area designated as land where mineral exploration and mining are prohibited under the Mining Prohibition Law (the "**MPL**") and the Group owns a number of exploration/mining concessions in Western Mongolia, which are also within the designated areas prohibited under the MPL. According to the MPL, the affected licence holders, including the Group, are to be compensated but details of the compensation are not currently available. If any of these mining concessions and/or exploration concession are revoked due to the MPL and the compensation received by the Group is significantly less than the carrying amounts of these concessions, the Group might incur a significant impairment loss on the related assets. The Directors have concluded that, other than the accumulated impairment losses recognised, no impairment that results from the MPL are required to be recognised in the consolidated financial statements. However, the ultimate outcome of this matter cannot presently be determined.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the Financial Year (2013: Nil).

ANNUAL GENERAL MEETING

The notice of the 2014 annual general meeting (the "**AGM**") will be published and despatched to the shareholders of the Company in the manner as required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in due course.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Our principal project is the Khushuut Coking Coal Project in Western Mongolia.

During the Financial Year, we were in commercial coal production halt and were focusing on the construction of the coal screening infrastructures.

RESULTS ANALYSIS

Revenue

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

Cost of Sales and Other Expenses

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

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

Administrative Expenses

The administrative expenses included the following major items:

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

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

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

Fair Value Gain on Derivative Component of Convertible Notes

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

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

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

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

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

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

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

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

Finance Costs

The increase in finance costs was due to the increase in the total outstanding borrowings during the Financial Year.

BUSINESS REVIEW

Coal Sales and Operation

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

Coal Processing Infrastructures

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

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

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

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

Mining Contractor

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

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

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

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

New Customs Bonded Yard On-site

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

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

Customers and Sales

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

Co-operation Agreement with the Khovd Province

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

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

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

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

Strategic Deposits

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

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

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

Licences and Exploration Activities

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

Such obligations require a holder of licence to incur substantial administrative costs in organizing exploration and mining activities, and filing of the requisite planning and reports to the Mongolian authorities. Non-compliance of any of the requirements will not only lead to suspension or revocation of the licence, but also subject the holder to a fine.

Apart from the Khushuut mining licences (operating licences of our Khushuut Coking Coal Project), we also have a number of other mining and exploration licences in Mongolia. These licences consist of eight exploration licences and three mining licences, and they are/were non-Khushuut related licences. After years of exploration and studies, these licences do not demonstrate economic coal/

metal resources to justify further development and maintenance. Pursuant to our prudent expenditure policy, and at the recommendation of our geologist, we have resolved to return these non-potential licences to the Mongolian government gradually this year.

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

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

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

Legal and Political Aspects

As previously reported, the Mongolian government adopted a number of legislation including the Law of Mongolia on the Regulation of Foreign Investment in Business Entities of Strategic Importance (the "**Foreign Investment Law**") and the Law of Mongolia on the Prohibition of Minerals Exploration and Mining in Headwater Areas, Protected Zones for Water Reserves and Forest Lands (the "**MPL**") which have the effect of shaking investors' confidence on investing in Mongolia.

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

In order to restore the investors' confidence and provide incentives to invest in Mongolia, a special parliament session took place in September 2013 to discuss the reform of various legislation that have the effects of curbing the Mongolian economy.

Such discussions included, among others, the replacement of the Foreign Investment Law which restricted the transfer of interest in the strategic sectors in Mongolia and some of the tax-favoured policies.

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

Details of some of the changes are set out below:

Investment Act

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

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

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

The essentials of the Investment Act include, among others:

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

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

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

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

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

Law on Border Checkpoints

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

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

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

Regulations relating to Royalty

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

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

Khushuut Coal Resources

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

As set out in the technical report by John T. Boyd Company, the resource estimation of the Khushuut Coal Mine is based on "reasonable prospects for eventual economic extraction" by using the following parameters:

(a) Open-pit mining method;

(b) Maximum mining depth of 400 meters;

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

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

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

Disputes with contractors

With Leighton

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

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

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

With a Xinjiang contractor

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

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

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

Others

Disposal of Investment Property

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

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

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

Expiry of the convertible notes issued to the Sculptor Finance Group

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

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

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

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

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

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

FINANCIAL REVIEW

1. Liquidity and financial resources

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

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

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

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

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

2. Investment in Listed Securities

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

3. Charge on Group's Assets

There was no charge on the Group's assets as at 31 March 2014.

4. Gearing Ratio

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

5. Foreign Exchange

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

6. Contingent Liabilities

The details of the Group's contingent liabilities as at 31 March 2014 are disclosed in Note 15 to the consolidated financial statements.

7. Major Disposal

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

OUTLOOK

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

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

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

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

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

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

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

HUMAN RESOURCES

As at 31 March 2014, excluding site and construction workers directly employed by our contractors, the Group employed 293 full-time employees in Hong Kong, Mongolia, and the PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on a periodic basis. Apart from the retirement scheme, staff bonus, and share options are awarded to the employees according to performance of the Group, assessment of individual performance, and industry practice. Appropriate training programs are also offered for staff training and development.

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

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

CORPORATE GOVERNANCE

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

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

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

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

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

    The Company has not set up a nomination committee as required. The Board considers that it should be the responsibility of the full Board to review these matters and make decisions from time to time. The Board has already set out the criteria for selection of a Director under its internal policy. According to the Bye-laws of the Company, any newly appointed Directors are required to offer themselves for re-election at the next general meetings. Furthermore, the Director re-election process are participating by the shareholders in the AGMs and the rights of shareholders to nominate a Director both ensure a right candidate to be selected to serve the Board effectively.

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

    Due to another business engagement, the Chairman was unable to attend the 2013 AGM. An Executive Director took the chair of the 2013 AGM and answered questions raised from the shareholders. A member of the Audit and Remuneration Committee of the Company was also present and available to answer shareholders' questions at the 2013 AGM. The AGM provides a channel for communication between the Board and the shareholders. Other than the AGM, the shareholders may communicate with the Company through the contact information listed on the Company's website.

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 of the Employees' Guidelines by the employees was noted by the Company.

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

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

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

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

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

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

AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the consolidated financial statements for the Financial Year of the Group.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mongolia-energy.com). The annual report of the Company for the Financial Year containing all the information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites in due course.

By Order of the Board
Mongolia Energy Corporation Limited
Tang Chi Kei
Company Secretary

Hong Kong, 27 June 2014

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