THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Mongolia Energy Corporation Limited (the "Company"), you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

(1) CAPITAL REORGANISATION;
(2) CHANGE IN BOARD LOT SIZE;
(3) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF THE 2014 GI CONVERTIBLE NOTE;
(4) SUBSCRIPTIONS OF THE 2014 CTF CONVERTIBLE NOTE AND THE 2014 SF CONVERTIBLE NOTES;
AND
(5) APPLICATION FOR WHITEWASH WAIVER IN RELATION TO THE 2014 GI CONVERTIBLE NOTE AND THE 2014 CTF CONVERTIBLE NOTE

Financial adviser to the Company

Halcyon Capital Limited

Independent Financial Adviser to
the Independent Board Committee and Independent Shareholders of the Company

SOMERLEY CAPITAL LIMITED

A letter from the board of directors of the Company is set out on pages 10 to 41 of this circular and a letter from the Independent Board Committee of the Company containing its recommendation to the Independent Shareholders of the Company is set out on pages 42 to 43 of this circular. A letter from Somerley Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 44 to 68 of this circular.

A notice convening a special general meeting (the "SGM") of the Company to be held at Unit A, 29/F Admiralty Centre I, 18 Harcourt Road, Hong Kong, on Wednesday, 12 November 2014 at 11:00 a.m. is set out on pages SGM-1 to SGM-5 of this circular. Whether or not you intend to attend the SGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

24 October 2014

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In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"2014 Convertible Notes"	collectively, the 2014 GI Convertible Note, the 2014 CTF Convertible Note and the 2014 SF Convertible Notes and "2014 Convertible Note" shall mean any one of them
"2014 CTF Conversion Shares"	the Conversion Shares to be issued by the Company upon exercise of the Conversion Rights attaching to the 2014 CTF Convertible Note
"2014 CTF Convertible Note"	the 3% convertible note to be subscribed by the CTF Subscriber under the 2014 CTF Subscription Agreement
"2014 CTF Subscription"	the subscription of the 2014 CTF Convertible Note by the CTF Subscriber pursuant to the 2014 CTF Subscription Agreement
"2014 CTF Subscription Agreement"	the conditional subscription agreement dated 19 September 2014 entered into between the Company and the CTF Subscriber pursuant to which the Company has agreed to issue, and the CTF Subscriber has agreed to subscribe for, the 2014 CTF Convertible Note
"2014 GI Conversion Shares"	the Conversion Shares to be issued by the Company upon exercise of the Conversion Rights attaching to the 2014 GI Convertible Note
"2014 GI Convertible Note"	the 3% convertible note to be subscribed by the GI Subscriber under the 2014 GI Subscription Agreement
"2014 GI Subscription"	the subscription of the 2014 GI Convertible Note by the GI Subscriber pursuant to the 2014 GI Subscription Agreement
"2014 GI Subscription Agreement"	the conditional subscription agreement dated 19 September 2014 entered into between the Company and the GI Subscriber pursuant to which the Company has agreed to issue, and the GI Subscriber has agreed to subscribe for, the 2014 GI Convertible Note
"2014 SF Conversion Shares"	the Conversion Shares to be issued by the Company upon exercise of the Conversion Rights attaching to the 2014 SF Convertible Notes
"2014 SF Convertible Notes"	the 3% convertible notes to be subscribed by the SF Subscribers under the 2014 SF Subscription Agreement
"2014 SF Subscription"	the subscription of the 2014 SF Convertible Notes by the SF Subscribers pursuant to the 2014 SF Subscription Agreement

"2014 SF Subscription Agreement"	the conditional subscription agreement dated 19 September 2014 entered into between the Company and the SF Subscribers pursuant to which the Company has agreed to issue, and the SF Subscribers have agreed to subscribe for, the 2014 SF Convertible Notes
"Announcement"	the announcement of the Company dated 19 September 2014 in relation to the Capital Reorganisation, the Change in Board Lot Size, the Subscriptions and the Whitewash Waiver
"acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"associate(s)"	has the same meaning ascribed thereto under the Listing Rules
"Board"	the board of the Directors
"Business Day"	a day (excluding Saturday, Sunday, any public holiday and any day on which a tropical cyclone warning no.8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong, New York and Ireland are generally open for business
"BVI"	the British Virgin Islands
"Bye-Laws"	the bye-laws of the Company as amended from time to time
"Capital Reduction"	the proposal for the reduction of the par value of the issued Consolidated Shares from HK$0.08 each to HK$0.02 each by cancelling the paid-up capital to the extent of HK$0.06 on each issued Consolidated Share and the cancellation of any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation immediately after the Share Consolidation
"Capital Reorganisation"	the proposed reorganisation of the capital of the Company by way of (i) the Share Consolidation; (ii) the Capital Reduction; and (iii) the Share Premium Reduction as referred to in this circular
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Change in Board Lot Size"	the proposed change in board lot size of the Shares for trading on the Stock Exchange from 1,000 Existing Shares to 3,000 New Shares

"close associate(s)"	has the same meaning ascribed thereto under the Listing Rules
"Companies Act"	the Companies Act 1981 of Bermuda, as amended, modified or supplemented from time to time
"Company"	Mongolia Energy Corporation Limited (Stock code: 276), a company incorporated in Bermuda with limited liability whose issued Shares are listed on the Stock Exchange
"Concert Group"	the GI Subscriber and its concert parties, the CTF Subscriber and its concert parties, including but not limited to Dragon Noble Group Limited, Mr. Lo and his spouse, Dato' Dr. Cheng Yu Tung, Dr. Cheng Kar Shun, Henry and his spouse
"connected person(s)"	has the same meaning ascribed thereto under the Listing Rules
"Consolidated Share(s)"	the ordinary share(s) of HK$0.08 each in the capital of the Company immediately after the Share Consolidation but prior to the Capital Reduction
"Conversion Price"	the initial conversion price of HK$0.230 per Existing Share (subject to adjustment as set out in the 2014 Convertible Notes, from time to time, if any)
"Conversion Right(s)"	the right(s) attaching to the 2014 Convertible Notes to convert the respective principal amounts and any accrued but unpaid interest thereon or any part thereof into the Conversion Share(s)
"Conversion Share(s)"	the Share(s) to be issued by the Company as a result of the exercise of the Conversion Rights attaching to the 2014 Convertible Notes
"CTF Completion Date"	the third Business Day after fulfillment of the conditions precedent set out in the 2014 CTF Subscription Agreement or such other date as may be agreed between the parties to the 2014 CTF Subscription Agreement in writing, and in any event no later than the Long Stop Date
"CTF Subscriber"	Chow Tai Fook Nominee Limited, a company incorporated in Hong Kong with limited liability and is wholly and beneficially owned by Dato' Dr. Cheng Yu Tung
"Director(s)"	the director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director

"Existing 3% CTF Convertible Note"	3% convertible note due 15 June 2014 issued by the Company to the CTF Subscriber, the outstanding principal amount of which was HK$2,000,000,000 as at the Latest Practicable Date and the conversion right attached thereto has been expired
"Existing 5% CTF Convertible Note"	5% convertible note due 8 January 2016 issued by the Company to the CTF Subscriber, the outstanding principal amount of which was HK$200,000,000 as at the Latest Practicable Date
"Existing 3.5% GI Convertible Note"	3.5% convertible note due 6 September 2013 issued by the Company to the GI Subscriber, the outstanding principal amount of which was HK$300,000,000 as at the Latest Practicable Date and the conversion right attached thereto has been expired
"Existing 5% GI Convertible Note"	5% convertible note due 8 January 2016 issued by the Company to the GI Subscriber, the outstanding principal amount of which was HK$200,000,000 as at the Latest Practicable Date
"Existing SF Convertible Notes"	3.5% convertible notes due 12 November 2013 issued by the Company to the SF Subscribers, the aggregate outstanding principal amount of which was HK$466,800,000 as at the Latest Practicable Date and the conversion rights attached thereto have been expired
"Existing Share(s)"	the ordinary share(s) of HK$0.02 each in the share capital of the Company
"GI Completion Date"	the third Business Day after fulfillment of the conditions precedent set out in the 2014 GI Subscription Agreement or such other date as may be agreed between the parties to the 2014 GI Subscription Agreement in writing, and in any event no later than the Long Stop Date
"GI Subscriber"	Golden Infinity Co., Ltd., a company incorporated in the BVI with limited liability and wholly-owned by Mr. Lo
"Group"	the Company and its subsidiaries
"HK" or "Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"Independent Board Committee"	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Peter Pun, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu, established for the purpose of advising the Independent Shareholders in relation to the Subscriptions and the Whitewash Waiver
"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licensed by the SFC to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions and the Whitewash Waiver
"Independent Shareholders"	Shareholders other than the members of the Concert Group and their respective associates and those Shareholders who are involved in or interested in the Subscriptions or the Whitewash Waiver
"Last Trading Day"	3 September 2014, being the last full trading day prior to the halt of trading in the Shares on the Stock Exchange pending the publication of the Announcement
"Latest Practicable Date"	21 October 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Committee"	has the meaning ascribed to it under the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	30 November 2014 or such other date as the Company, the GI Subscriber, the CTF Subscriber and the SF Subscribers may agree in writing
"Mr. Lo"	Mr. Lo Lin Shing, Simon, an executive Director and the chairman of the Company
"New Share(s)"	the ordinary share(s) of HK$0.02 each in the share capital of the Company immediately upon the Capital Reorganisation becoming effective
"PRC"	the People's Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan

"Relevant Period"	the period commencing on 19 March 2014, being the date of six months preceding 19 September 2014 (being the date of the Announcement), and ending on the Latest Practicable Date
"SF Completion Date"	the third Business Day after fulfillment of the conditions precedent set out in the 2014 SF Subscription Agreement or such other date as may be agreed between the parties to the 2014 SF Subscription Agreement in writing, and in any event no later than the Long Stop Date
"SF Majority Subscribers"	the SF Subscribers who have agreed to subscribe for 50.1% or more of the principal amount of the 2014 SF Convertible Notes
"SF Subscribers"	Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited, the investment funds incorporated in Ireland in 2006 and are managed by OZ Management LP, an operating entity of Och-Ziff Capital Management Group LLC (a leading global alternative asset management firm)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SGM"	the special general meeting of the Company to be convened and held for the Shareholders and, where applicable, the Independent Shareholders to consider and, if thought fit, approve the Capital Reorganisation, the Subscription Agreements and the transactions contemplated thereunder and the Whitewash Waiver
"Share(s)"	the Existing Share(s), the Consolidated Share(s) and/or the New Share(s), as the case may be
"Share Buy-Backs Code"	the Hong Kong Code on Share Buy-Backs
"Share Consolidation"	the proposed consolidation of every four (4) Existing Shares of HK$0.02 each into one (1) Consolidated Share of HK$0.08 in the issued share capital of the Company
"Share Option Schemes"	the share option schemes of the Company adopted on 28 August 2002 and 30 August 2012 respectively
"Share Options"	the share options granted under the Share Option Schemes and to be granted under the share option scheme of the Company adopted on 30 August 2012 by the Company

"Share Premium Reduction"	the proposed cancellation of the entire amount standing to the credit of the share premium account of the Company immediately after the Capital Reduction
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscribers"	collectively the CTF Subscriber, the GI Subscriber and the SF Subscribers
"Subscription Agreements"	collectively, the 2014 GI Subscription Agreement, the 2014 CTF Subscription Agreement and the 2014 SF Subscription Agreement
"Subscriptions"	collectively, the 2014 GI Subscription, the 2014 CTF Subscription and the 2014 SF Subscription
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"US$"	United States dollars, the lawful currency of the United States of America
"Whitewash Waiver"	the waiver of the obligation of the GI Subscriber and/or the CTF Subscriber to make a mandatory general offer for all the issued securities of the Company other than those already owned (or agreed to be acquired) by the Concert Group under Rule 26 of the Takeovers Code as a result of the issue of new Shares on conversion of the 2014 GI Convertible Note and/or the 2014 CTF Convertible Note
"%"	per cent.

The expected timetable for the Capital Reorganisation and the Change in Board Lot Size is set out below. The timetable is subject to the results of the SGM and is therefore for indicative purpose only. An announcement will be made by the Company regarding any changes to the expected timetable as and when appropriate. All times and dates in this circular refer to Hong Kong local times and dates.

	2014 (Hong Kong time)
Latest time for lodging transfer documents and relevant share certificates to be eligible to attend and vote at the SGM	4:30 p.m. on Friday, 7 November
Closure of register of members of the Company for the purpose of ascertaining Shareholders' eligibility to attend and vote at the SGM for the Capital Reorganisation	from Monday, 10 November to Wednesday, 12 November (both days inclusive)
Latest time for lodging the proxy form of the SGM	11:00 a.m. on Monday, 10 November
Expected date and time of the SGM	11:00 a.m. on Wednesday, 12 November
Announcement of the results of the SGM	Wednesday, 12 November

The following events are conditional on the fulfilment of the conditions for the implementation of the Capital Reorganisation:

Expected effective date of the Capital Reorganisation	Thursday, 13 November
First day for free exchange of existing share certificates for new share certificates	Thursday, 13 November
Commencement of dealings in New Shares	9:00 a.m. on Thursday, 13 November
Original counter for trading in Existing Shares in board lots of 1,000 Existing Shares (in the form of existing share certificates) temporarily closes	9:00 a.m. on Thursday, 13 November
Temporary counter for trading in New Shares in board lots of 250 New Shares (in the form of existing share certificates) opens	9:00 a.m. on Thursday, 13 November
Original counter for trading in New Shares in board lots of 3,000 New Shares (in the form of new share certificates) re-opens	9:00 a.m. on Thursday, 27 November

	2014 (Hong Kong time)
Parallel trading in New Shares (in the form of new share certificates and existing share certificates) commences	9:00 a.m. on Thursday, 27 November
Designated broker starts to provide matching services for odd lots of New Shares	Thursday, 27 November
Temporary counter for trading in New Shares in board lots of 250 New Shares (in the form of existing share certificates) closes	4:00 p.m. on Wednesday, 17 December
Parallel trading in New Shares (in the form of new share certificates and existing share certificates) ends	4:00 p.m. on Wednesday, 17 December
Designated broker ceases to provide matching services for odd lots of New Shares	4:00 p.m. on Wednesday, 17 December
Last day for free exchange of existing share certificates for new share certificates	Friday, 19 December

MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

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

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
41st Floor
New World Tower 1
16–18 Queen's Road Central
Hong Kong

24 October 2014

To the Shareholders and, for information only, holders of the convertible notes of the Company

Dear Sir or Madam,

(1) CAPITAL REORGANISATION;
(2) CHANGE IN BOARD LOT SIZE;
(3) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF THE 2014 GI CONVERTIBLE NOTE;
(4) SUBSCRIPTIONS OF THE 2014 CTF CONVERTIBLE NOTE AND THE 2014 SF CONVERTIBLE NOTES;
AND
(5) APPLICATION FOR WHITEWASH WAIVER IN RELATION TO THE 2014 GI CONVERTIBLE NOTE AND THE 2014 CTF CONVERTIBLE NOTE

INTRODUCTION

On 19 September 2014, the Board announced that it proposed to put forward to the Shareholders the Capital Reorganisation involving the Share Consolidation, the Capital Reduction and the Share Premium Reduction and it proposed the Change in Board Lot Size upon the Capital Reorganisation becoming effective.

Furthermore, on 19 September 2014, the Company entered into the Subscription Agreements with the GI Subscriber, the CTF Subscriber and the SF Subscribers respectively, pursuant to which the GI Subscriber, the CTF Subscriber and the SF Subscribers conditionally agreed to subscribe for the 2014 Convertible Notes.

The purpose of this circular is to give you (i) details of the Capital Reorganisation; (ii) details of the Subscriptions, the 2014 Convertible Notes and the Whitewash Waiver; (iii) recommendations from the Independent Board Committee in respect of the Subscriptions and the Whitewash Waiver, respectively; (iv) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions and the Whitewash Waiver, respectively; (v) other information as required under the Listing Rules and the Takeovers Code and (vi) the notice of the SGM.

CAPITAL REORGANISATION

On 19 September 2014, the Board proposed to put forward to the Shareholders the Capital Reorganisation which will comprise:

(i) the Share Consolidation whereby every four (4) issued Existing Shares of par value of HK$0.02 each will be consolidated into one (1) Consolidated Share of par value of HK$0.08 each;

(ii) the Capital Reduction whereby the par value of each issued Consolidated Share will be 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 and any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation will be cancelled;

(iii) the Share Premium Reduction whereby the entire amount standing to the credit of the share premium account of the Company will be cancelled;

(iv) the transfer of the credit arising from the Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company; and

(v) the application of the contributed surplus account of the Company to set off the accumulated losses of the Company as permitted by the Companies Act and the Bye-Laws.

Effects of the Capital Reorganisation

As at the Latest Practicable Date, the authorised share capital of the Company was HK$300,000,000 divided into 15,000,000,000 Existing Shares, of which 6,756,547,828 Existing Shares are issued and credited as fully paid. Assuming there will be no change in the issued share capital of the Company from the Latest Practicable Date up to the date on which the Share Consolidation becomes effective and there is no fractional share arising from the Share Consolidation, the issued share capital of the Company will be HK$135,130,956.56 divided into 1,689,136,957 Consolidated Shares of par value of HK$0.08 each.

Upon the Capital Reduction becoming effective, the par value of all the Consolidated Shares shall be reduced from HK$0.08 each to HK$0.02 each and the issued share capital of the Company shall accordingly be reduced to the extent of HK$0.06 per Consolidated Share in issue. The fractional Consolidated Shares in the issued share capital of the Company arising from the Share Consolidation, if any, will also be cancelled. Any fractional Consolidated Shares to which the Shareholders are entitled shall be aggregated and sold for the benefit of the Company.

The New Shares will rank pari passu in all respects with each other in accordance with the Bye-Laws. The authorised share capital of the Company will remain unchanged upon the Capital Reduction becoming effective, but the issued share capital will be reduced to HK$33,782,739.14 divided into 1,689,136,957 New Shares of par value of HK$0.02 each.

The credit of approximately HK$101,348,217.42 arising from the Capital Reduction and the credit arising from the Share Premium Reduction will be transferred to the contributed surplus account of the Company and applied to set off against the accumulated losses of the Company as permitted by the Companies Act and the Bye-Laws with the balance (if any) after such set off to remain in the contributed surplus account of the Company.

Other than the relevant expenses incurred and to be incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company.

The Capital Reorganisation will not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any unpaid capital of the Company nor will it result in any change in the relative rights of the Shareholders.

The following table sets out the effect of the Capital Reorganisation on the share capital of the Company before and after the implementation of the Capital Reorganisation, assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date until the effective date of the Capital Reorganisation.

	As at the Latest Practicable Date	**Immediately after the Share Consolidation becoming effective**	**Immediately after the Capital Reorganisation becoming effective**
Par value	HK$0.02 per Existing Share	HK$0.08 per Consolidated Share	HK$0.02 per New Share
Authorised share capital	HK$300,000,000.00 divided into 15,000,000,000 Existing Shares	HK$300,000,000.00 divided into 3,750,000,000 Consolidated Shares	HK$300,000,000.00 divided into 15,000,000,000 New Shares
Issued and fully paid up or credited as fully paid up share capital	HK$135,130,956.56 divided into 6,756,547,828 Existing Shares	HK$135,130,956.56 divided into 1,689,136,957 Consolidated Shares *(Note)*	HK$33,782,739.14 divided into 1,689,136,957 New Shares *(Note)*
Unissued share capital	HK$164,869,043.44 divided into 8,243,452,172 Existing Shares	HK$164,869,043.44 divided into 2,060,863,043 Consolidated Shares *(Note)*	HK$266,217,260.86 divided into 13,310,863,043 New Shares *(Note)*

Note: Assuming that there is no fractional Share arising from the Share Consolidation.

Reasons for the Capital Reorganisation

The Board considers that (i) the Share Consolidation will reduce the transaction costs for dealing in the New Shares, including those fees which are charged with reference to the number of board lots; (ii) the Capital Reorganisation will provide the Company with greater flexibility in possible fund raisings in the future; and (iii) the credit in the contributed surplus account of the Company arising from the Capital Reduction and the Share Premium Reduction will enable the Company to set off its accumulated losses and may be applied in the future for distribution to the Shareholders or in any manner permitted by the laws of Bermuda and the Bye-Laws.

As such, the Board is of the view that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

Conditions of the Capital Reorganisation

The Capital Reorganisation (which will be effected in accordance with the Bye-Laws and the Companies Act) is conditional upon:

(i) the passing of a special resolution to approve the Capital Reorganisation by the Shareholders at the SGM;

(ii) the Stock Exchange granting the listing of, and permission to deal in, the New Shares arising from the Capital Reorganisation and the New Shares which may fall to be allotted and issued upon exercise of the share options granted and to be granted under the share option schemes of the Company and upon exercise of the conversion rights attaching to the outstanding convertible notes of the Company;

(iii) the compliance with the relevant procedures and requirements under the laws of Bermuda and the Listing Rules to effect the Capital Reorganisation; and

(iv) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation.

Listing and dealings

Application will be made to the Listing Committee for the granting of the listing of, and permission to deal in, the New Shares arising from the Capital Reorganisation and the New Shares which may fall to be allotted and issued upon exercise of the Share Options and upon exercise of the conversion rights attaching to the outstanding convertible notes of the Company.

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The New Shares will be identical in all respects and rank pari passu in all respects with each other. All necessary arrangements will be made for the New Shares to be admitted into CCASS.

No part of the securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange, and no application for listing or permission to deal in any securities of the Company is being or is proposed to be sought on other stock exchanges.

Fractional shares

Fractional New Shares will not be issued by the Company to the Shareholders. Any fractional entitlements of the New Shares will be aggregated and sold for the benefit of the Company.

Free exchange of share certificates

Subject to the Capital Reorganisation becoming effective, Shareholders may from Thursday, 13 November 2014 to Friday, 19 December 2014 submit share certificates of the Existing Shares to the Company's branch share registrar in Hong Kong, Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in exchange, at the expense of the Company, for new share certificates of New Shares. Thereafter, share certificates of the Existing Shares will be accepted for exchange only on payment of a fee of HK$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate of the Existing Shares cancelled or each new share certificate issued for the New Shares, whichever number of certificates cancelled/issued is higher. It is expected that the share certificates of the New Shares will be available for collection within a period of 10 Business Days after the date of submission of the share certificates of the Existing Shares to the Company's branch share registrar in Hong Kong. The existing share certificates will only be valid for trading and settlement purposes for the period up to 4:00 p.m. on Wednesday, 17 December 2014 (or such other date which may be announced by the Company) and will continue to be good evidence of legal title and may be exchanged for share certificates of the New Shares at any time in accordance with the foregoing.

The new share certificates of the New Shares will be issued in blue colour in order to distinguish them from the existing green colour.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the New Shares arising from the Capital Reorganisation and the Change in Board Lot Size (as detailed below), the Company has appointed Halcyon Securities Limited as an agent to provide matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the New Shares to make up a full board lot, or to dispose of their holding of odd lots of the New Shares during the period from 9:00 a.m. on Thursday, 27 November 2014 to 4:00 p.m. on Wednesday, 17 December 2014 (both days inclusive). Shareholders who wish to take advantage of this facility either to dispose of their odd lots of the New Shares or to top up their odd lots of the New Shares to a full new board lot may directly or through their broker contact Mr. Gilbert Lam of Halcyon Securities Limited at 11th Floor, 8 Wyndham Street, Hong Kong (telephone: (852) 3970 0990 and facsimile: (852) 3970 0998) in the aforesaid period.

The Shareholders should note that successful matching of the sale and purchase of odd lots of the New Shares is not guaranteed. The Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility.

Adjustment in relation to other securities of the Company

As at the Latest Practicable Date, the Company had 86,800,000 outstanding Share Options, the Existing 5% CTF Convertible Note and the Existing 5% GI Convertible Note. The Existing 5% CTF Convertible Note and the Existing 5% GI Convertible Note will be fully redeemed subject to the satisfaction of the conditions as set out in this circular below. Further announcement will be made by the Company as and when appropriate in respect of any adjustment to be made as a result of the Capital Reorganisation to the exercise price of those outstanding Share Options and the aggregate number of Shares to be allotted and issued upon exercise of the subscription rights attaching to those outstanding Share Options.

Save as aforesaid, the Company had no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

CHANGE IN BOARD LOT SIZE

The Existing Shares are currently traded in board lots of 1,000. The Board proposes to change the board lot size for trading on the Stock Exchange from 1,000 Existing Shares to 3,000 New Shares upon the Capital Reorganisation becoming effective.

Based on the closing price of the Existing Share of HK$0.168 as at the Latest Practicable Date and the existing board lot size of 1,000 Existing Shares, the prevailing board lot value is HK$168 (equivalent to HK$672 upon the Capital Reorganisation becoming effective). On the basis of the aforesaid closing price and the new board lot size of 3,000 New Shares, the new board lot value would be HK$2,016. The Change in Board Lot Size is expected to result in New Shares being traded in a more reasonable board lot size and value.

THE SUBSCRIPTIONS

Reference is made to the announcements of the Company dated 6 September 2013, 29 October 2013, 12 November 2013, 18 November 2013, 12 May 2014, 14 May 2014, 16 June 2014, 12 August 2014 and 12 September 2014 in relation to, among other things, (i) the expiry of the Existing 3.5% GI Convertible Note and the agreement to a moratorium on repayment of the outstanding principal and interest thereunder to 19 September 2014 by the GI Subscriber; (ii) the expiry of the Existing SF Convertible Notes and the agreement to a moratorium on repayment of the aggregate outstanding principal and interest thereunder to 19 September 2014 by the SF Subscribers; and (iii) the expiry of the Existing 3% CTF Convertible Note and the agreement to a moratorium on repayment of the outstanding principal and interest thereunder to 19 September 2014 by the CTF Subscriber.

On 19 September 2014, the Company entered into (i) the 2014 GI Subscription Agreement with the GI Subscriber pursuant to which the Company conditionally agreed to issue and the GI Subscriber conditionally agreed to subscribe for the 2014 GI Convertible Note; (ii) the 2014 CTF Subscription Agreement with the CTF Subscriber pursuant to which the Company conditionally agreed to issue and the CTF Subscriber conditionally agreed to subscribe for the 2014 CTF Convertible Note; and (iii) the 2014 SF Subscription Agreement with the SF Subscribers pursuant to which the Company conditionally agreed to issue and the SF Subscribers conditionally agreed to subscribe for the 2014 SF Convertible Notes. The principal terms of each of the Subscription Agreements are set out below.

2014 GI Subscription Agreement

Date:	19 September 2014
Parties:	The Company, as issuer The GI Subscriber, as subscriber

The GI Subscriber is an investment holding company wholly and beneficially owned by Mr. Lo and is a substantial Shareholder. As at the Latest Practicable Date, the GI Subscriber and its concert parties (excluding the CTF Subscriber, Dragon Noble Group Limited and their respective concert parties) held 1,212,788,301 Existing Shares, representing approximately 17.95% of the existing issued share capital of the Company.

Subject

The Company conditionally agreed to issue and the GI Subscriber conditionally agreed to subscribe for the 2014 GI Convertible Note at the subscription price which will be used for full settlement of the outstanding principal amount and accrued interest of the Existing 3.5% GI Convertible Note due and owing by the Company to the GI Subscriber on the GI Completion Date and for early redemption of the outstanding principal amount and accrued interest of the Existing 5% GI Convertible Note on the GI Completion Date. The GI Subscriber has, subject to the terms and conditions of the 2014 GI Subscription Agreement, agreed to extend the date of repayment of the aggregate outstanding amount owing under the Existing 3.5% GI Convertible Note to the GI Completion Date. Furthermore, redemption of the Existing 5% GI Convertible Note will be made pursuant to its terms and conditions which permit such early redemption without the prior agreement of the GI Subscriber, and therefore, constitutes an exempt share buy-back under the Share Buy-Backs Code. The GI Subscriber agrees not to exercise the conversion right under the Existing 5% GI Convertible Note until the GI Completion Date. The aggregate outstanding amount under the Existing 3.5% GI Convertible Note and the Existing 5% GI Convertible Note was HK$538,770,637 as at the date of the 2014 GI Subscription Agreement and will be HK$542,886,966 as at the Long Stop Date.

Conditions precedent

Completion of the 2014 GI Subscription Agreement is conditional upon, among others:

(a) the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the 2014 GI Conversion Shares issuable under the 2014 GI Convertible Note and such grant remaining in full force and effect;

(b) all necessary consents, approvals (or waivers), authorisation, permission or exemption from any third parties, including but not limited to government or regulatory authorities, having been obtained by the Company in connection with the 2014 GI Subscription and the issue of the 2014 GI Convertible Note and the 2014 GI Conversion Shares and such consents, approvals (or waivers), authorisation, permission or exemption remaining in full force and effect;

(c) the compliance by the Company with all legal and other requirements under the Listing Rules, the Takeovers Code and the laws of Bermuda applicable to the transactions contemplated under the 2014 GI Subscription Agreement;

(d) the passing of the requisite respective resolutions by the Board and the Shareholders at the SGM (other than those persons who are precluded from voting under the Listing Rules and the Takeovers Code) approving the transactions contemplated under the 2014 GI Subscription Agreement, the 2014 CTF Subscription, the 2014 SF Subscription (including but not limited to the issue of the 2014 GI Convertible Note, the 2014 CTF Convertible Note and the 2014 SF Convertible Notes and the allotment and issue of new Shares upon exercise of the Conversion Rights) and the Whitewash Waiver;

(e) up to the GI Completion Date, there shall not have occurred any change (nor any development or event involving a prospective change), which is materially adverse to the financial condition or results of operations of the Company and the Group taken as a whole;

(f) the granting of the Whitewash Waiver by the Executive and all conditions (if any) attached thereto having been fulfilled; and

(g) the 2014 CTF Subscription Agreement and the 2014 SF Subscription Agreement having become unconditional in all respects except for the condition therein relating to the 2014 GI Subscription Agreement having become unconditional.

The GI Subscriber may waive fulfilment of the whole or any part of the conditions precedent set out in the 2014 GI Subscription Agreement (except conditions (a), (b), (c), (d) and (f) above). As at the Latest Practicable Date, none of the conditions precedent set out in the 2014 GI Subscription Agreement had been waived or fulfilled.

Completion

Completion of the 2014 GI Subscription shall take place simultaneously with the completion of the 2014 CTF Subscription and the 2014 SF Subscription and on the GI Completion Date.

Rescission

If any of the following events occurs at any time prior to completion of the 2014 GI Convertible Note, the GI Subscriber may, by giving a written notice to the Company, rescind the 2014 GI Subscription Agreement if:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the GI Subscriber materially and adversely affect the business or the financial position of the Group as a whole;

(b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the 2014 GI Subscription Agreement, of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the GI Subscriber, materially and adversely affect the business or the financial position of the Group as a whole;

(c) in the reasonable opinion of the GI Subscriber, there shall have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, the Nasdaq Stock Market, Inc., the London Stock Exchange plc and/or the Stock Exchange; (ii) a suspension or material limitation in trading in the Company's securities or the Shares on the Stock Exchange (other than any temporary suspension for clearance of announcement for no more than five consecutive trading days); (iii) a general moratorium on commercial banking activities in New York, London or Hong Kong declared by the relevant authorities, or a material disruption in commercial banking or securities settlement or clearance services in the United States, the United Kingdom or Hong Kong; (iv) a change or development involving a prospective material change in taxation in Bermuda or Hong Kong affecting the Company, the Shares, the 2014 GI Convertible Note or the transfer thereof; (v) the outbreak or escalation of hostilities involving the United States, the United Kingdom or Hong Kong or the declaration by the United States, the United Kingdom or Hong Kong of a national emergency or war; or (vi) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or controls;

(d) any breach of the representations and warranties given by the Company under the 2014 GI Subscription Agreement or any failure by the Company to perform any of the agreements set forth in the 2014 GI Subscription Agreement or any change which would render such representations and warranties given by the Company inaccurate if they were to be repeated immediately thereafter comes to the notice of the GI Subscriber and not waived by the GI Subscriber; or

(e) in connection with the 2014 GI Subscription, any of the conditions precedent set out in the 2014 GI Subscription Agreement has not been satisfied or waived by the GI Subscriber by the Long Stop Date.

Upon the giving of such notice by the GI Subscriber, all obligations of the Company and the GI Subscriber under the 2014 GI Subscription Agreement shall cease and determine and no party to the 2014 GI Subscription Agreement shall have any claim against the other in respect of any matter or thing arising out of or in connection with the 2014 GI Subscription Agreement.

2014 CTF Subscription Agreement

Date: 19 September 2014

Parties: The Company, as issuer
The CTF Subscriber, as subscriber

The CTF Subscriber is an investment holding company wholly and beneficially owned by Dato' Dr. Cheng Yu Tung. As at the Latest Practicable Date, the CTF Subscriber and its concert parties (including Dragon Noble Group Limited and its concert parties but excluding the GI Subscriber and its concert parties) held 619,670,000 Existing Shares, representing approximately 9.17 % of the existing issued share capital of the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the CTF Subscriber and its ultimate beneficial owner are not connected with the Company under the meaning of the Listing Rules.

Subject

The Company conditionally agreed to issue and the CTF Subscriber conditionally agreed to subscribe for the 2014 CTF Convertible Note at the subscription price which will be used for full settlement of the outstanding principal amount and accrued interest of the Existing 3% CTF Convertible Note due and owing by the Company to the CTF Subscriber on the CTF Completion Date and for early redemption of the outstanding principal amount and accrued interest of the Existing 5% CTF Convertible Note on the CTF Completion Date. The CTF Subscriber has, subject to the terms and conditions of the 2014 CTF Subscription Agreement, agreed to extend the date of repayment of the aggregate outstanding amount owing under the Existing 3% CTF Convertible Note to the CTF Completion Date. Furthermore, redemption of the Existing 5% CTF Convertible Note will be made pursuant to its terms and conditions which permit such early redemption without the prior agreement of the CTF Subscriber, and therefore, constitutes an exempt share buy-back under the Share Buy-Backs Code. The CTF Subscriber agrees not to exercise the conversion right under the Existing 5% CTF Convertible Note until the CTF Completion Date. The aggregate outstanding amount under the Existing 3% CTF Convertible Note and the Existing 5% CTF Convertible Note was HK$2,413,095,890 as at the date of the 2014 CTF Subscription Agreement and will be HK$2,426,904,109 as at the Long Stop Date.

Conditions precedent

Completion of the 2014 CTF Subscription Agreement is conditional upon, among others:

(a) the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the 2014 CTF Conversion Shares issuable under the 2014 CTF Convertible Note and such grant remaining in full force and effect;

(b) all necessary consents, approvals (or waivers), authorisation, permission or exemption from any third parties, including but not limited to government or regulatory authorities, having been obtained by the Company in connection with the 2014 CTF Subscription and the issue of the 2014 CTF Convertible Note and the 2014 CTF Conversion Shares and such consents, approvals (or waivers), authorisation, permission or exemption remaining in full force and effect;

(c) the compliance by the Company with all legal and other requirements under the Listing Rules, the Takeovers Code and the laws of Bermuda applicable to the transactions contemplated under the 2014 CTF Subscription Agreement;

(d) the passing of the requisite respective resolutions by the Board and the Shareholders at the SGM (other than those persons who are precluded from voting under the Listing Rules and the Takeovers Code) approving the transactions contemplated under the 2014 CTF Subscription Agreement, the 2014 GI Subscription, the 2014 SF Subscription (including but not limited to the issue of the 2014 CTF Convertible Note, the 2014 GI Convertible Note and the 2014 SF Convertible Notes and the allotment and issue of new Shares upon exercise of the Conversion Rights) and the Whitewash Waiver;

(e) up to the CTF Completion Date, there shall not have occurred any change (nor any development or event involving a prospective change), which is materially adverse to the financial condition or results of operations of the Company and the Group taken as a whole;

(f) the granting of the Whitewash Waiver by the Executive and all conditions (if any) attached thereto having been fulfilled; and

(g) the 2014 GI Subscription Agreement and the 2014 SF Subscription Agreement having become unconditional in all respects except for the condition therein relating to the 2014 CTF Subscription Agreement having become unconditional.

The CTF Subscriber may waive fulfilment of the whole or any part of the conditions precedent set out in the 2014 CTF Subscription Agreement (except conditions (a), (b), (c), (d) and (f) above). As at the Latest Practicable Date, none of the conditions precedent set out in the 2014 CTF Subscription Agreement had been waived or fulfilled.

Completion

Completion of the 2014 CTF Subscription shall take place simultaneously with the completion of the 2014 GI Subscription and the 2014 SF Subscription and on the CTF Completion Date.

Rescission

If any of the following events occurs at any time prior to completion of the 2014 CTF Convertible Note, the CTF Subscriber may, by giving a written notice to the Company, rescind the 2014 CTF Subscription Agreement if:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the CTF Subscriber materially and adversely affect the business or the financial position of the Group as a whole;

(b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the 2014 CTF Subscription Agreement, of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the CTF Subscriber, materially and adversely affect the business or the financial position of the Group as a whole;

(c) in the reasonable opinion of the CTF Subscriber, there shall have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, the Nasdaq Stock Market, Inc., the London Stock Exchange plc and/or the Stock Exchange; (ii) a suspension or material limitation in trading in the Company's securities or the Shares on the Stock Exchange (other than any temporary suspension for clearance of announcement for no more than five consecutive trading days); (iii) a general moratorium on commercial banking activities in New York, London or Hong Kong declared by the relevant authorities, or a material disruption in commercial banking or securities settlement or clearance services in the United States, the United Kingdom or Hong Kong; (iv) a change or development involving a prospective material change in taxation in Bermuda or Hong Kong affecting the Company, the Shares, the 2014 CTF Convertible Note or the transfer thereof; (v) the outbreak or escalation of hostilities involving the United States, the United Kingdom or Hong Kong or the declaration by the United States, the United Kingdom or Hong Kong of a national emergency or war; or (vi) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or controls;

(d) any breach of the representations and warranties given by the Company under the 2014 CTF Subscription Agreement or any failure by the Company to perform any of the agreements set forth in the 2014 CTF Subscription Agreement or any change which would render such representations and warranties given by the Company inaccurate if they were to be repeated immediately thereafter comes to the notice of the CTF Subscriber and not waived by the CTF Subscriber; or

(e) in connection with the 2014 CTF Subscription, any of the conditions precedent set out in the 2014 CTF Subscription Agreement has not been satisfied or waived by the CTF Subscriber by the Long Stop Date.

Upon the giving of such notice by the CTF Subscriber, all obligations of the Company and the CTF Subscriber under the 2014 CTF Subscription Agreement shall cease and determine and no party to the 2014 CTF Subscription Agreement shall have any claim against the other in respect of any matter or thing arising out of or in connection with the 2014 CTF Subscription Agreement.

2014 SF Subscription Agreement

Date: 19 September 2014

Parties: The Company, as issuer
The SF Subscribers, as subscribers

The SF Subscribers are investment funds incorporated in Ireland in 2006 and are managed by OZ Management LP, an operating entity of Och-Ziff Capital Management Group LLC. Och-Ziff Capital Management Group LLC is a leading global alternative asset management firm with approximately US$46.1 billion of assets under management as of 1 September 2014.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the SF Subscribers and their ultimate beneficial owners are third parties independent of the Group and its connected persons.

Subject

The Company conditionally agreed to issue and the SF Subscribers conditionally agreed to subscribe for the 2014 SF Convertible Notes at the subscription price which will be used for full settlement of all outstanding principal amount and accrued interest of the Existing SF Convertible Notes due and owing by the Company to the SF Subscribers on the SF Completion Date. The SF Subscribers have, subject to the terms and conditions of the 2014 SF Subscription Agreement, agreed to extend the date of repayment of the aggregate outstanding amount owing under the Existing SF Convertible Notes to the SF Completion Date. The aggregate outstanding amount under the Existing SF Convertible Notes was HK$497,103,633 as at the date of the 2014 SF Subscription Agreement and will be HK$500,326,472 as at the Long Stop Date.

The respective principal amounts of the 2014 SF Convertible Notes to be subscribed by the SF Subscribers will be the respective aggregate outstanding amounts (including the outstanding principal amount and the accrued interest thereon up to the SF Completion Date) owing by the Company to the SF Subscribers under the Existing SF Convertible Notes.

	Aggregate outstanding amounts under the Existing SF Convertible Notes	
The SF Subscribers	**As at the date of the 2014 SF Subscription Agreement** *(HK$)*	**As at the Long Stop Date** *(HK$)*
Sculptor Finance (MD) Ireland Limited	331,021,181	333,167,269
Sculptor Finance (AS) Ireland Limited	151,467,520	152,449,519
Sculptor Finance (SI) Ireland Limited	14,614,932	14,709,684

Conditions precedent

Completion of the 2014 SF Subscription Agreement is conditional upon, among others:

(a) the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the 2014 SF Conversion Shares issuable under the 2014 SF Convertible Notes and such grant remaining in full force and effect;

(b) all necessary consents, approvals (or waivers), authorisation, permission or exemption from any third parties, including but not limited to government or regulatory authorities, having been obtained by the Company in connection with the 2014 SF Subscription and the issue of the 2014 SF Convertible Notes and the 2014 SF Conversion Shares and such consents, approvals (or waivers), authorisation, permission or exemption remaining in full force and effect;

(c) the compliance by the Company with all legal and other requirements under the Listing Rules and the laws of Bermuda applicable to the transactions contemplated under the 2014 SF Subscription Agreement;

(d) the passing of the requisite respective resolutions by the Board and the Shareholders at the SGM (other than those persons who are precluded from voting under the Listing Rules and the Takeovers Code) approving the transactions contemplated under the 2014 SF Subscription Agreement, the 2014 CTF Subscription and the 2014 GI Subscription (including but not limited to the issue of the 2014 SF Convertible Notes, the 2014 GI Convertible Note and the 2014 CTF Convertible Note and the allotment and issue of new Shares upon exercise of the Conversion Rights);

(e) up to the SF Completion Date, there shall not have occurred any change (nor any development or event involving a prospective change), which is materially adverse to the financial condition or results of operations of the Company and the Group taken as a whole; and

(f) the 2014 GI Subscription Agreement and the 2014 CTF Subscription Agreement having become unconditional in all respects except for the condition therein relating to the 2014 SF Subscription Agreement having become unconditional.

The SF Majority Subscribers may waive fulfilment of the whole or any part of the conditions precedent set out in the 2014 SF Subscription Agreement (except conditions (a), (b), (c) and (d) above). As at the Latest Practicable Date, none of the conditions precedent set out in the 2014 SF Subscription Agreement had been waived or fulfilled.

Completion

Completion of the 2014 SF Subscription shall take place simultaneously with the completion of the 2014 GI Subscription and the 2014 CTF Subscription and on the SF Completion Date.

Rescission

If any of the following events occurs at any time prior to completion of the 2014 SF Convertible Notes, the SF Majority Subscribers may, by giving a written notice to the Company, rescind the 2014 SF Subscription Agreement:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the SF Majority Subscribers materially and adversely affect the business or the financial position of the Group as a whole;

(b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the 2014 SF Subscription Agreement, of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the SF Majority Subscribers, materially and adversely affect the business or the financial position of the Group as a whole;

(c) in the reasonable opinion of the SF Majority Subscribers, there shall have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, the Nasdaq Stock Market, Inc., the London Stock Exchange plc and/or the Stock Exchange; (ii) a suspension or material limitation in trading in the Company's securities or the Shares on the Stock Exchange (other than any temporary suspension for clearance of announcement for no more than five consecutive trading days); (iii) a general moratorium on commercial banking activities in New York, London or Hong Kong declared by the relevant authorities, or a material disruption in commercial banking or securities settlement or clearance services in the United States, the United Kingdom or Hong Kong; (iv) a change or development involving a prospective material change in taxation in Bermuda or Hong Kong affecting the Company, the Shares, the 2014 SF Convertible Notes or the transfer thereof; (v) the outbreak or escalation of hostilities involving the United States, the United Kingdom or Hong Kong or the declaration by the United States, the United Kingdom or Hong Kong of a national emergency or war; or (vi) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or controls;

(d) any breach of the representations and warranties given by the Company under the 2014 SF Subscription Agreement or any failure by the Company to perform any of the agreements set forth in the 2014 SF Subscription Agreement or any change which would render such representations and warranties given by the Company inaccurate if they were to be repeated immediately thereafter comes to the notice of any of the SF Subscribers and not waived by the SF Majority Subscribers; or

(e) in connection with the 2014 SF Subscription, any of the conditions precedent set out in the 2014 SF Subscription Agreement has not been satisfied or waived by the SF Majority Subscribers by the Long Stop Date.

Upon the giving of such notice by the SF Subscribers, all obligations of the Company and the SF Subscribers under the 2014 SF Subscription Agreement shall cease and determine and no party to the 2014 SF Subscription Agreement shall have any claim against the other in respect of any matter or thing arising out of or in connection with the 2014 SF Subscription Agreement.

PRINCIPAL TERMS OF THE 2014 CONVERTIBLE NOTES

Principal amount	2014 GI Convertible Note:	equivalent to the aggregate outstanding amount (including the principal amount and any outstanding accrued interest up to the GI Completion Date) owing by the Company to the GI Subscriber under the Existing 3.5% GI Convertible Note and the Existing 5% GI Convertible Note, which is expected to be not more than HK$542,886,966 (being the aggregate outstanding amount calculated up to the Long Stop Date).

2014 CTF Convertible Note: equivalent to the aggregate outstanding amount (including the principal amount and any outstanding accrued interest up to the CTF Completion Date) owing by the Company to the CTF Subscriber under the Existing 3% CTF Convertible Note and the Existing 5% CTF Convertible Note, which is expected to be not more than HK$2,426,904,109 (being the aggregate outstanding amount calculated up to the Long Stop Date).

2014 SF Convertible Notes: equivalent to the aggregate outstanding amount (including the principal amount and any outstanding accrued interest up to the SF Completion Date) owing by the Company to the SF Subscribers under the Existing SF Convertible Notes, which is expected to be not more than HK$500,326,472 (being the aggregate outstanding amount calculated up to the Long Stop Date).

Maturity The fifth anniversary of the date of issue of the 2014 Convertible Notes (or such later date as consented by the holders of the 2014 Convertible Notes (in the case of the 2014 SF Convertible Notes, such consent has to be given by holders of the 2014 SF Convertible Notes holding at least 50.1% of the then outstanding principal amount of the 2014 SF Convertible Notes)).

Interest rate 3% per annum on the principal amount from time to time outstanding, and, unless previously redeemed (not applicable to the 2014 SF Convertible Notes), repaid or converted into Shares, payable in arrears on the maturity date of the 2014 Convertible Notes (as the case may be).

Denomination for conversion With a minimum aggregate amount of HK$1,000,000 and HK$1,000 integral multiples thereof (save that if at any time the aggregate outstanding amount held by a holder of the 2014 Convertible Note is less than HK$1,000,000, the whole (but not part only) of such aggregate outstanding amount may be converted).

Conversion rights A holder of the 2014 Convertible Note shall have the right to convert all or any part (comprising the outstanding principal amount and any accrued but unpaid interest thereon and in the denomination as stated above) of the 2014 Convertible Note into Conversion Shares at the Conversion Price (subject to adjustments) on any Business Day from the date of issue of the 2014 Convertible Note and up to the Business Day immediately prior to the maturity date of the 2014 Convertible Note.

Conversion price	Initially, HK$0.230 per Conversion Share, subject to adjustments for share consolidation, share subdivision, share reclassification, issue of Shares by way of scrip dividend, capitalisation issues, capital distribution, rights issue of Shares or options (other than share options of the Company under its share option schemes) or warrants or other rights over Shares, issue of Shares or options or warrants or other rights over Shares at a price per Share which is less than 90% of the then prevailing market price of the Share, issue of any securities ("**Other Securities**") convertible into or exchangeable for or carry rights of subscription for new Shares and following such issue the consideration per Share receivable is less than 90% of the then prevailing market price of the Share, modification of rights of conversion, exchange or subscription attached to any of the 2014 Convertible Notes or any Other Securities so that following such modification the consideration per Share receivable is less than 90% of the then prevailing market price of the Share, and for other offers by the Company, its subsidiaries or any other company, person or entity to Shareholders of any securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such securities may be acquired by them. All adjustment provisions under the 2014 Convertible Notes are the same.
Transferability	Freely transferrable, in whole or in part (in authorised denomination of HK$1,000 or its multiples) of the outstanding principal amount, to any person, subject to the terms of the 2014 Convertible Notes (as the case may be), the Listing Rules and all applicable laws and regulations.
Listing	No application will be made for the listing of the 2014 Convertible Notes on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the Conversion Rights.
Ranking	Obligations of the Company under the 2014 Convertible Notes are unsecured. The Conversion Shares to be issued upon the exercise of the Conversion Rights will be credited as fully paid and will rank pari passu in all respects with all other Shares outstanding at the date of exercise of the Conversion Rights and be entitled to all dividends and other distributions the record date for which falls on a date on or after the date of exercise of the Conversion Rights.
Voting	A holder of the 2014 Convertible Note will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being a holder of the 2014 Convertible Note.

Redemption and repurchase	The Company shall redeem at 100% of the outstanding principal amounts of the 2014 Convertible Notes (as the case may be) on the maturity date. The Company or any of its subsidiaries may at any time and from time to time repurchase the 2014 Convertible Notes or any part thereof at any price, in the open market or otherwise, as may be agreed between the Company or such subsidiary and the holder(s) of the 2014 Convertible Note(s) (as the case may be). The 2014 Convertible Note(s) or any part thereof so purchased shall forthwith be cancelled by the Company. 2014 GI Convertible Note and 2014 CTF Convertible Note: The Company may, at any time after the issue date of the 2014 GI Convertible Note or the 2014 CTF Convertible Note (as the case may be) on giving not less than ten (10) Business Days' prior written notice to the holder of the 2014 GI Convertible Note or the 2014 CTF Convertible Note (as the case may be), redeem the whole or any part (in denomination of HK$1,000) of the outstanding principal amount of the 2014 GI Convertible Note or the 2014 CTF Convertible Note (as the case may be) together with all interest accrued thereon.
Status	The obligations of the Company arising under the 2014 Convertible Notes constitute general, unconditional, unsubordinated obligations of the Company and rank, and shall rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable laws.
Restriction on the exercise of the Conversion Rights	If the issue of the Conversion Shares pursuant to the exercise of the Conversion Right would result in the Company failing to meet its obligation under the Listing Rules to maintain the minimum prescribed percentage of the Shares which must at all times remain in public hands (as defined in the Listing Rules) (the "Public Float Requirement"), then such Conversion Right shall be deemed to have been exercised pursuant to such conversion notice such that the Company shall issue the maximum number of Conversion Shares under such conversion notice without breaching the Public Float Requirement. Any limitation on a Conversion Right with respect to a conversion notice shall be without prejudice whatsoever to any later exercise of the Conversion Rights pursuant to a subsequent conversion notice. The restriction provision on exercise of the Conversion Rights under the 2014 Convertible Notes are all the same. Under such restriction provision on exercise of the Conversion Rights, the Company will at all times maintain the public float requirement under the Listing Rules.
Provision only applicable to the holders of the 2014 SF Convertible Notes	Upon receipt of any irrevocable conversion notice by the Company from any of the holders of the 2014 GI Convertible Note and the 2014 CTF Convertible Note, the Company shall forthwith give written notice to the holders of the 2014 SF Convertible Notes of such receipt (the "Receipt Notice") who shall be entitled to issue a conversion notice to the Company within seven (7) Business Days following delivery of the Receipt Notice. The Company shall, subject to the compliance with the Public Float Requirement as stated above, issue Conversion Shares to the holders of the 2014 SF Convertible Notes in accordance with the conversion notice in priority to the issue of the Conversion Shares pursuant to the conversion notice served by such holder of the 2014 GI Convertible Note or the 2014 CTF Convertible Note. The right of holders of the 2014 SF Convertible Notes shall be waived or deem to have been waived if the Company does not receive the conversion notice from the holder(s) of the 2014 SF Convertible Notes within the said seven (7) Business Days following delivery of the Receipt Notice. The holders of the 2014 GI Convertible Note and the 2014 CTF Convertible Note agree and acknowledge such arrangement.

Events of default Any holder of the 2014 Convertible Notes (in the case of the 2014 SF Convertible Notes, holder(s) of the 2014 SF Convertible Notes holding or together holding at least 50.1% of the then outstanding principal amount of the 2014 SF Convertible Notes) may give notice in writing that the relevant 2014 Convertible Note shall be immediately due and payable at its principal amount then outstanding together with any accrued and unpaid interest calculated up to and excluding the date of payment upon the occurrence of any of the events including, inter alia, (1) ceasing permanently or suspension for a continuous period of 21 Business Days (on each of which the Stock Exchange is generally open for trading) (due to default of the Company or any of its Directors, officers or employees) of trading of the Shares on the Stock Exchange; (2) change of control of the Company; (3) failure of the Company to pay under the 2014 Convertible Notes and is not remedied for 7 Business Days after written notice from such holder of the 2014 Convertible Note has been given; (4) the passing of an effective resolution for the winding up, or dissolution, judicial management or administration of the Company or any of its material subsidiaries (except for member's voluntary solvent winding up) or any ceasing of business and other insolvency related events; (5) inability of the Company or its material subsidiaries to pay debts as they fall due or entering into any composition, arrangement with or assignment for the benefit of its creditors generally; (6) any consent, license, approval or authorisation for the execution, delivery, performance, legality, validity, enforceability or admissibility in evidence of the relevant 2014 Convertible Note is revoked or withheld or materially modified in a manner which shall materially and adversely affect the Company's ability to perform its obligations thereunder, or ceases to be in full force and effect; (7) it being impossible or unlawful in Hong Kong to pay the relevant 2014 Convertible Note; (8) failure to deliver any Shares under the relevant 2014 Convertible Note; (9) failure to perform or comply with any obligations under the relevant 2014 Convertible Note (other than the event of default of (3) or (8) above) which default is incapable of remedy or, if capable of remedy, is not remedied within 45 days of written notice by such holder of the relevant 2014 Convertible Note; (10) cross default after applicable grace period under any other indebtedness by the Company or any of its material subsidiaries which equals or exceeds HK$50 million or its equivalent; (11) undischarged levied executions and the like for 60 days; (12) any mortgage, charge, pledge, lien or encumbrance becomes enforceable and any step is taken to enforce it (including appointment of a receiver, manager or other similar person) and such enforcement is not discharged or stayed within 60 days; and (13) failure of the Company to perform or comply with its obligations under the relevant Subscription Agreement or breach by the Company of certain representations and warranties given by it in the relevant Subscription Agreement. The holder(s) of the 2014 Convertible Note(s) shall where there is failure to issue the Conversion Shares be entitled to bring an action against the Company for specific performance.

Negative pledge	So long as any of the 2014 Convertible Notes remains outstanding, the Group will not create, or have outstanding, any mortgage, charge, lien, pledge or other security interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any indebtedness which is in the form of bonds, notes, debentures, loan stock, depositary receipts, certificates of deposit or other similar securities or instruments which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange or over-the-counter or other securities market, or any guarantee or indemnity in respect of any such indebtedness, without at the same time or prior thereto according to the 2014 Convertible Notes the same security as is created or subsisting to secure any such indebtedness, guarantee or indemnity or such other security as shall be approved (such approval not to be unreasonably withheld or delayed) by the holders of the 2014 Convertible Notes (in the case of the 2014 SF Convertible Notes, such approval has to be given by holder(s) of the 2014 SF Convertible Notes holding at least 50.1% of the then outstanding principal amount of the 2014 SF Convertible Notes). The negative pledge provision under the 2014 Convertible Notes are all the same.
Most favoured treatment	The Company shall not amend the pari passu ranking tenor, interest rate, conversion price, adjustment provisions to the conversion price, the conversion right, negative pledge and the events of default provisions under any of the 2014 Convertible Notes or insert any additional provisions which are, in the opinion of any holder of the other 2014 Convertible Notes (in the case of the 2014 SF Convertible Notes, holders holding 50.1% of the then outstanding principal amount of the 2014 SF Convertible Notes) on terms and conditions more favourable to that holder of the 2014 Convertible Note unless at the same time: (a) the Company offers to amend the other 2014 Convertible Notes the effect of which is to give the benefit of such more favourable terms and conditions to the holders of the other 2014 Convertible Notes; and (b) to the extent that the holders of the other 2014 Convertible Notes accept such offer.

Upon full conversion of the principal amount of the 2014 GI Convertible Note of HK$542,886,966 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing 3.5% GI Convertible Note and the Existing 5% GI Convertible Note calculated up to the Long Stop Date) and the accrued interest thereon of HK$81,433,045 (calculated from the date of issue of the 2014 GI Convertible Note until its maturity) at the initial Conversion Price, a total of maximum 678,608,707 New Shares will be issued, representing approximately 40.17% of the total existing issued share capital of the Company (after adjustment for the Share Consolidation), approximately 28.66% of the Company's total issued share capital as enlarged by the issue of the 2014 GI Conversion Shares and approximately 11.26% of the Company's total issued share capital as enlarged by the issue of the 2014 GI Conversion Shares, the 2014 CTF Conversion Shares and the 2014 SF Conversion Shares.

Upon full conversion of the principal amount of the 2014 CTF Convertible Note of HK$2,426,904,109 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing 3% CTF Convertible Note and the Existing 5% CTF Convertible Note calculated up to the Long Stop Date) and the accrued interest thereon of HK$364,035,617 (calculated from the date of issue of the 2014 CTF Convertible Note until its maturity) at the initial Conversion Price, a total of maximum 3,033,630,136 New Shares will be issued, representing approximately 179.60% of the total existing issued share capital of the Company (after adjustment for the Share Consolidation), approximately 64.23% of the Company's total issued share capital as enlarged by the issue of the 2014 CTF Conversion Shares and approximately 50.34% of the Company's total issued share capital as enlarged by the issue of the 2014 GI Conversion Shares, the 2014 CTF Conversion Shares and the 2014 SF Conversion Shares.

Upon full conversion of the aggregate principal amount of the 2014 SF Convertible Notes of HK$500,326,472 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing SF Convertible Notes calculated up to the Long Stop Date) and the accrued interest thereon of HK$75,048,971 (calculated from the date of issue of the 2014 SF Convertible Notes until their maturity) at the initial Conversion Price, a total of maximum 625,408,090 New Shares will be issued, representing approximately 37.03% of the total existing issued share capital of the Company (after adjustment for the Share Consolidation), approximately 27.02% of the Company's total issued share capital as enlarged by the issue of the 2014 SF Conversion Shares and approximately 10.38% of the Company's total issued share capital as enlarged by the issue of the 2014 GI Conversion Shares, the 2014 CTF Conversion Shares and the 2014 SF Conversion Shares.

Conversion Price

The initial Conversion Price, being HK$0.230 per Existing Share (for illustration purpose, approximately HK$0.920 per New Share), represents:

(i) a premium of approximately 1.3% over the adjusted closing price of HK$0.908 per New Share (based on the closing price of HK$0.227 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation);

(ii) a premium of approximately 1.8% over the adjusted average closing price of approximately HK$0.904 per New Share (based on the average closing price of approximately HK$0.226 per Existing Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation);

(iii) a discount of approximately 1.3% to the adjusted average closing price of approximately HK$0.932 per New Share (based on the average closing price of HK$0.233 per Existing Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation);

(iv) a premium of approximately 36.9% over the adjusted closing price of HK$0.672 per New Share (based on the closing price of HK$0.168 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation); and

(v) a discount of approximately 57.2% to the adjusted audited consolidated net asset value of approximately HK$2.148 per New Share (based on the audited consolidated net asset value of approximately HK$0.537 per Existing Share (calculated from the audited consolidated net asset value of Company attributable to the Shareholders of approximately HK$3,628.0 million as at 31 March 2014 and 6,756,547,828 Existing Shares in issue as at the Latest Practicable Date) and adjusted for the effect of the Capital Reorganisation).

The Conversion Price was arrived at after arm's length negotiation between the Company, the GI Subscriber, the CTF Subscriber and the SF Subscribers after taking into account the prevailing market price of the Existing Shares, the Capital Reorganisation, the operation and financial performance of the Group and the current market conditions.

BUSINESS OF THE GROUP

The Group is an energy and resources developer. The principal project of the Group is the coking coal mining project in Khushuut, Khovd Province, Western Mongolia (the "**Khushuut Coking Coal Project**", the mine site of which is known as the "**Khushuut Coal Mine**").

The Khushuut Coking Coal Project has been under a continual production halt since October 2012 principally due to the dispute with the former sole mining contractor and the global economic downturn which had a negative bearing on the coking coal prices in the PRC. Regarding the dispute, the Company received the mediation notices from the former sole mining contractor in September 2013. According to the mediation notices, the former sole mining contractor proposed a stay of proceedings pending the mediation process. Up to the Latest Practicable Date, the mediation has yet to proceed and there is no development so far.

During this period, the Group has remained focused on optimizing its coal production process and enhancing coal quality by the erection of a dry coal processing plant in the Khushuut Coal Mine and building of a coal washing plant in Xinjiang, the PRC. The building of the dry coal processing plant has been completed and it is currently under a test run. The installation of main operative part of the washing plant was completed in September 2014 and it is also under a test run currently. If the test runs are smooth, the Group expects these coal processing facilities to formally operate upon coal production in the fourth quarter of 2014. However, the coal production is subject to a number of factors including the successful test runs of its coal processing infrastructures in the Khushuut Coal Mine and in Xinjiang, satisfaction of the customer on the Group's coal quality, and the market conditions.

The Group appointed an overburden removal contractor in April 2014 and a coal extraction contractor in July 2014 to prepare for its resumption of coal production in the fourth quarter 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 coal extraction contractor also provides loading and haulage of extracted coal services on the mine site. Both contractors are now working at the Khushuut Coal Mine. Apart from the field work contractors, the Group has also appointed external coal trucking companies to provide coal transportation services for its coal export.

As disclosed in the announcement of the Company dated 30 May 2014, the Group has planned to dispose of its deposit in Bayan-Ugii which, according to the Group's preliminary exploration, contains iron resources. The carrying amount of this license was approximately HK$285.7 million as at 31 March 2014. Up to the Latest Practicable Date, no potential purchaser of this deposit had been identified. The Group will renew this license upon its expiry in October 2014 and continue to look for a potential purchaser. As this exploration license was not disposed of on 30 September 2014, the Group has engaged an independent valuer to determine the recoverable amount on this license. If the recoverable amount is determined to be lesser than the carrying amount, an impairment loss will arise and be recognized in the Group's consolidated financial statements. The impairment amount could not be quantified as at the Latest Practicable Date as the recoverable amount had yet been finalized. In a worst case scenario, the whole carrying amount of this license may be impaired. The impairment is non-cash in nature and will not affect the Group's liquidity, cash flows nor have any impact on future operations.

The Group does not have any plan or negotiation to acquire any business or assets from the Subscribers or other independent third parties.

REASONS FOR THE SUBSCRIPTIONS AND USE OF PROCEEDS

Upon expiry of the Existing 3.5% GI Convertible Note, the Existing 3% CTF Convertible Note and the Existing SF Convertible Notes, the Company has exercised its best endeavor to engage in negotiations with the Subscribers for the refinancing arrangement and finally reached a mutually acceptable debt restructuring plan by entering into the Subscription Agreements with the Subscribers.

The subscription price of the 2014 GI Convertible Note will be used by the Company for full settlement of the outstanding principal amount and accrued interest of the Existing 3.5% GI Convertible Note and for early redemption of the outstanding principal amount and accrued interest of the Existing 5% GI Convertible Note on the GI Completion Date. The subscription price of the 2014 CTF Convertible Note will be used by the Company for full settlement of the outstanding principal amount and accrued interest of the Existing 3% CTF Convertible Note and for early redemption of the outstanding principal amount and accrued interest of the Existing 5% CTF Convertible Note on the CTF Completion Date. The subscription price of the 2014 SF Convertible Notes will be used by the Company for full settlement of the aggregate outstanding principal amount and accrued interest of the Existing SF Convertible Notes on the SF Completion Date. The estimated costs of approximately HK$2.6 million relating to the issue of the 2014 Convertible Notes will be satisfied by the internal resources of the Group.

After taking into account that: (i) the full settlement of the outstanding principal amounts and accrued interest of the Existing 3.5% GI Convertible Note, the Existing 3% CTF Convertible Note and the Existing SF Convertible Notes with the issue of the 2014 Convertible Notes will not exert immediate cash outflow burden on the Group; (ii) the early redemption of the Existing 5% GI Convertible Note and the Existing 5% CTF Convertible Note with the issue of the 2014 GI Convertible Note and the 2014 CTF Convertible Note bearing interest at 3% per annum will reduce the Group's payable interests; (iii) the

Subscriptions will secure the continuing financial support from the Subscribers to the Group's business development and operation; (iv) the prevailing market prices and trading volume of the Shares and/or the current financial position of the Group may not be favourable to a fund raising exercise for substantial amount by way of issue of new Shares to independent third party(ies) or to existing Shareholders on a pro rata basis (e.g. rights issue and open offer) where considerable discount to the market prices of the Shares would be required after the Company's enquiry of certain brokerage houses with no favourable responses; and (v) the issue of the 2014 Convertible Notes will not lead to immediate dilution on the shareholding interests of the existing Shareholders, the executive Directors consider that the issue of the 2014 Convertible Notes is an appropriate debt restructuring plan for the Company and the terms of the Subscription Agreements are on normal commercial terms and fair and reasonable, and the transactions contemplated under the Subscription Agreements are in the interests of the Group and the Shareholders as a whole.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, other than the Existing and 5% GI Convertible Note and the Existing 5% CTF Convertible Note, the Company also had Share Options entitling the holders thereof to subscribe for an aggregate of 86,800,000 Existing Shares (the "**Outstanding Share Options**"). Save as disclosed above, as at the Latest Practicable Date, there were no other outstanding options, warrants, derivatives, or other securities which carry rights to subscribe for or be converted into Shares.

As disclosed in the section headed "Principal terms of the 2014 Convertible Notes" above, with the restriction provision on exercise of the Conversion Rights, the Company will at all times maintain the public float requirement under the Listing Rules.

The table below illustrates the shareholding structures of the Company as at the Latest Practicable Date, upon the Capital Reorganisation becoming effective and under the following scenarios (assuming that the Capital Reorganisation has become effective and there is no other change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date up to the occurrence of the relevant events mentioned below):

Scenario I: immediately upon full conversion of the principal amount of the 2014 GI Convertible Note of HK$542,886,966 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing 3.5% GI Convertible Note and the Existing 5% GI Convertible Note calculated up to the Long Stop Date) and the accrued interest thereon of HK$81,433,045 (calculated from the date of issue of the 2014 GI Convertible Note until its maturity) at the initial Conversion Price only;

Scenario II: immediately upon full conversion of the principal amount of the 2014 CTF Convertible Note of HK$2,426,904,109 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing 3% CTF Convertible Note and the Existing 5% CTF Convertible Note calculated up to the Long Stop Date) and the accrued interest thereon of HK$364,035,617 (calculated from the date of issue of the 2014 CTF Convertible Note until its maturity) at the initial Conversion Price only;

Scenario III: immediately upon full conversion of the aggregate principal amount of the 2014 SF Convertible Notes of HK$500,326,472 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing SF Convertible Notes calculated up to the Long Stop Date) and the accrued interest thereon of HK$75,048,971 (calculated from the date of issue of the 2014 SF Convertible Notes until their maturity) at the initial Conversion Price only;

Scenario IV: for illustration purpose only, occurrence of scenarios I and II above only;

Scenario V: for illustration purpose only, occurrence of scenarios I, II and III above; and

Scenario VI: for illustration purpose only, occurrence of scenarios I, II and III above, and exercise of all Outstanding Share Options (assuming the relevant Share Options will be adjusted as a result of the Capital Reorganisation to entitle the holders thereof to subscribe for an aggregate of 21,700,000 New Shares).

	As at the Latest Practicable Date		Upon Capital Reorganisation becoming effective	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
The Concert Group				
GI Subscriber and its concert parties	1,212,788,301 *(Note 1)*	17.95	303,197,075	17.95
CTF Subscriber and its concert parties	225,000,000	3.33	56,250,000	3.33
Dragon Noble Group Limited and its concert parties *(Note 2)*	394,670,000	5.84	98,667,500	5.84
Subtotal	1,832,458,301	27.12	458,114,575	27.12
SF Subscribers	—	—	—	—
Other directors of the Group *(Note 3)*	7,283,200	0.11	1,820,800	0.11
Other public Shareholders	4,916,806,327	72.77	1,229,201,582	72.77
Total	**6,756,547,828**	**100.00**	**1,689,136,957**	**100.00**

	Upon Capital Reorganisation becoming effective and											
	Scenario I		**Scenario II**		**Scenario III**		**Scenario IV**		**Scenario V**		**Scenario VI**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares (Note 4)*	*Approximate %*	*Number of Shares (Note 4)*	*Approximate %*	*Number of Shares (Note 4)*	*Approximate %*
The Concert Group												
GI Subscriber and its concert parties	981,805,782	41.47	303,197,075	6.42	303,197,075	13.10	981,805,782	18.18	981,805,782	16.29	988,555,782	16.34
CTF Subscriber and its concert parties	56,250,000	2.38	3,089,880,136	65.42	56,250,000	2.43	3,089,880,136	57.20	3,089,880,136	51.27	3,089,880,136	51.09
Dragon Noble Group Limited and its concert parties *(Note 2)*	98,667,500	4.16	98,667,500	2.09	98,667,500	4.26	98,667,500	1.83	98,667,500	1.64	98,667,500	1.63
Subtotal	1,136,723,282	48.01	3,491,744,711	73.93	458,114,575	19.79	4,170,353,418	77.21	4,170,353,418	69.20	4,177,103,418	69.06
SF Subscribers	—	—	—	—	625,408,090	27.02	—	—	625,408,090	10.37	625,408,090	10.34
Other directors of the Group *(Note 3)*	1,820,800	0.08	1,820,800	0.04	1,820,800	0.08	1,820,800	0.03	1,820,800	0.03	5,320,800	0.09
Other public Shareholders	1,229,201,582	51.91	1,229,201,582	26.03	1,229,201,582	53.11	1,229,201,582	22.76	1,229,201,582	20.40	1,240,651,582	20.51
Total	**2,367,745,664**	**100.00**	**4,722,767,093**	**100.00**	**2,314,545,047**	**100.00**	**5,401,375,800**	**100.00**	**6,026,783,890**	**100.00**	**6,048,483,890**	**100.00**

Notes:

1. Among the 1,212,788,301 Existing Shares, 4,960,000 Existing Shares represent interest of Mr. Lo on an individual basis; while 1,206,078,301 Existing Shares represent interest of the GI Subscriber. The balance of 1,750,000 Existing Shares represent interest of Ms. Ku Ming Mei, Rouisa, the spouse of Mr. Lo.

2. Dragon Noble Group Limited is a company wholly and beneficially owned by Dr. Cheng Kar Shun, Henry.

3. Other directors of the Group include Ms. Yvette Ong, Mr. To Hin Tsun, Gerald, Mr. Tsui Hing Chuen, William, Mr. Lau Wai Piu, Mr. Peter Pun and Mr. Tang Chi Kei. Mr. Tang Chi Kei is the Company Secretary of the Company and director of some of the subsidiaries of the Company.

4. Pursuant to the terms of the 2014 Convertible Notes, if the issue of the Conversion Shares pursuant to the exercise of the Conversion Right would result in the Company failing to meet the public float requirements as prescribed under the Listing Rules from time to time, such Conversion Right shall be deemed to have been exercised pursuant to such conversion notice such that the Company shall issue the maximum number of Conversion Shares under such conversion notice without breaching the then public float requirement. Accordingly, scenarios IV, V and VI above are shown for illustrative purpose only.

FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

The Company has not conducted any fund raising activities in the 12 months prior to the date of the Announcement.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the GI Subscriber held 1,206,078,301 Shares, representing approximately 17.85% of the existing issued share capital of the Company. As the GI Subscriber is a substantial Shareholder and its sole beneficial owner is an executive Director, the GI Subscriber is a connected person of the Company and the 2014 GI Subscription constitutes a connected transaction for the Company and is subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. Mr. Lo, who has a material interest in the 2014 GI Subscription, has abstained from voting on the Board's resolution approving the 2014 GI Subscription.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Peter Pun, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu has been established by the Company to give recommendation to the Independent Shareholders on the Subscriptions and the Whitewash Waiver. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The Conversion Shares to be allotted and issued pursuant to the 2014 Convertible Notes are proposed to be issued pursuant to a specific mandate to be granted by the Independent Shareholders by way of poll at the SGM.

Given that each of the Subscription Agreements is conditional to one another, all the transactions contemplated under the Subscription Agreements will be subject to the approval of the Independent Shareholders by way of poll at the SGM and the GI Subscriber, the CTF Subscriber, the SF Subscribers and their respective associates will abstain from voting on the proposed resolution to approve the Subscriptions at the SGM.

An application will be made to the Listing Committee for the listing of, and permission to deal in, not more than 17,350,587,737 Conversion Shares (before the Capital Reorganisation becoming effective) and 4,337,646,933 Conversion Shares (after the Capital Reorganisation becoming effective). Upon completion of the Subscriptions, an announcement regarding the respective principal amounts of the 2014 Convertible Notes and the number of Conversion Shares issuable thereunder will be made by the Company.

WHITEWASH WAIVER

The GI Subscriber, Mr. Lo and his spouse, the CTF Subscriber, Dragon Noble Group Limited, Dato' Dr. Cheng Yu Tung, Dr. Cheng Kar Shun, Henry and his spouse are parties acting in concert with each other in respect of the Company.

As at the Latest Practicable Date, the Concert Group held an aggregate of 1,832,458,301 Existing Shares, representing approximately 27.12% of the total voting rights of the Company.

Completion of the 2014 GI Subscription Agreement and the 2014 CTF Subscription Agreement is conditional upon, among other things, the Whitewash Waiver being approved by the Independent Shareholders and granted by the Executive. Upon full conversion of the aggregate amount of the 2014 GI Convertible Note and the 2014 CTF Convertible Note (based on the maximum respective principal amounts thereof to be issued and the accrued interest thereon) at the initial Conversion Price, it is expected that the aggregate voting rights of the Company held by the Concert Group will increase to approximately 77.21%, assuming no other change to the share capital and shareholding structure of the Company. Under Rule 26 of the Takeovers Code, the acquisition of voting rights under such circumstances will trigger a mandatory general offer by the GI Subscriber and/or the CTF Subscriber for all the securities of the Company other than those already owned (or agreed to be acquired) by the Concert Group, unless an appropriate waiver is obtained. An application has been made by the GI Subscriber and the CTF Subscriber to the Executive for the Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders by way of poll at the SGM. Members of the Concert Group and their respective associates and those Shareholders who are involved in or interested in the Subscriptions or the Whitewash Waiver will abstain from voting on the proposed resolution to approve the Whitewash Waiver at the SGM.

For illustration purpose, upon full conversion of the 2014 GI Convertible Note and the 2014 CTF Convertible Note but before taking into account the conversion of the 2014 SF Convertible Notes, the aggregate voting rights of the GI Subscriber, the CTF Subscriber and their respective concert parties in the Company will exceed 50%. Accordingly, if the Whitewash Waiver is granted by the Executive and is approved by the Independent Shareholders at the SGM, and if, upon any conversion of the 2014 GI Convertible and/or the 2014 CTF Convertible Note by the GI Subscriber and/or the CTF Subscriber, the aggregate voting rights of the GI Subscriber, the CTF Subscriber and their respective concert parties in the Company exceed 50%, any subsequent increase in the voting right by any of them will not result in their incurring any obligation under Rule 26 of the Takeovers Code to make a mandatory general offer.

If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the 2014 GI Subscription Agreement and the 2014 CTF Subscription Agreement will not become unconditional and the Subscriptions will not proceed.

SGM

Set out on pages SGM-1 to SGM-5 is a notice convening the SGM to be held at Unit A, 29/F Admiralty Centre I, 18 Harcourt Road, Hong Kong, on Wednesday, 12 November 2014 at 11:00 a.m. which resolutions will be proposed to consider and, if thought fit, to approve the Capital Reorganisation, the transactions contemplated under the Subscription Agreements and the Whitewash Waiver.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 42 to 43 of this circular and the letter from Somerley on pages 44 to 68 of this circular which contains their advice to the Independent Board Committee and the Independent Shareholders regarding the Subscription Agreements and the transactions contemplated thereunder and the Whitewash Waiver as well as the principal factors and reasons taken into consideration in arriving at their advice.

The Directors, excluding the Independent Board Committee, consider that the terms of the Subscription Agreements and the transactions contemplated thereunder and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors, excluding the Independent Board Committee, recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the transactions contemplated under the Subscription Agreements and the Whitewash Waiver. You are advised to read the letter from the Independent Board Committee and the letter from Somerley mentioned above before deciding how to vote at the SGM.

The Directors also consider that the Capital Reorganisation is in the interest of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the resolution approving the Capital Reorganisation at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By order of the Board of
Mongolia Energy Corporation Limited
Lo Lin Shing, Simon
Chairman

The following is the full text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Subscriptions and the Whitewash Waiver which has been prepared for the purpose of inclusion in this circular.

MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

24 October 2014

To the Independent Shareholders

Dear Sir or Madam,

(1) THE SUBSCRIPTIONS INCLUDING CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF THE 2014 GI CONVERTIBLE NOTE; AND (2) WHITEWASH WAIVER IN RELATION TO THE 2014 GI CONVERTIBLE NOTE AND THE 2014 CTF CONVERTIBLE NOTE

We refer to the circular of the Company dated 24 October 2014 (the "Circular"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you on the terms of the Subscription Agreements and the transactions contemplated thereunder and the Whitewash Waiver. Somerley has been appointed as the independent financial adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 44 to 68 of the Circular.

Your attention is also drawn to the "Letter from the Board" in the Circular and the additional information set out in the appendices thereto.

Having considered the terms of the Subscription Agreements and the transactions contemplated thereunder and the Whitewash Waiver and taking into account the independent advice of Somerley, in particular the principal factors, reasons and recommendation as set out in their letter, we consider that the terms of the Subscription Agreements and the transactions contemplated thereunder are on normal commercial terms, although the entering into of the Subscription Agreements (including the grant of the specific mandate for the allotment and issue of the Conversion Shares) is not in the ordinary and usual course of business of the Group on the basis that it shall be regarded as a corporate financing activity instead of a usual operating activity of the Group, the terms of the Subscription Agreements and the transactions contemplated thereunder and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Subscription Agreements and the transactions contemplated thereunder and the Whitewash Waiver are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the entering into of the Subscription Agreements by the Company and the transactions contemplated there under and the Whitewash Waiver.

Yours faithfully,
Independent Board Committee

Peter Pun **Tsui Hing Chuen, William** **Lau Wai Piu**

Independent non-executive Directors

The following is the text of a letter received from Somerley Capital Limited setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions and the Whitewash Waiver for inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

24 October 2014

To the Independent Board Committee and the Independent Shareholders of Mongolia Energy Corporation Limited

Dear Sir or Madam,

(1) THE SUBSCRIPTIONS INCLUDING CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF THE 2014 GI CONVERTIBLE NOTE; AND (2) WHITEWASH WAIVER IN RELATION TO THE 2014 GI CONVERTIBLE NOTE AND THE 2014 CTF CONVERTIBLE NOTE

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions and the Whitewash Waiver, details of which are set out in the circular of the Company dated 24 October 2014 (the "**Circular**") to the Shareholders and, for information only, holders of the convertible notes of the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 19 September 2014, the Company entered into the following:

(i) the 2014 GI Subscription Agreement pursuant to which the Company (as issuer) has conditionally agreed to issue and the GI Subscriber (as subscriber) has conditionally agreed to subscribe for the 2014 GI Convertible Note;

(ii) the 2014 CTF Subscription Agreement pursuant to which the Company (as issuer) has conditionally agreed to issue and the CTF Subscriber (as subscriber) has conditionally agreed to subscribe for the 2014 CTF Convertible Note; and

(iii) the 2014 SF Subscription Agreement pursuant to which the Company (as issuer) has conditionally agreed to issue and the SF Subscribers (as subscribers) have conditionally agreed to subscribe for the 2014 SF Convertible Notes.

As the GI Subscriber is a substantial Shareholder and its sole beneficial owner is an executive Director, the GI Subscriber is a connected person of the Company and the 2014 GI Subscription constitutes a connected transaction for the Company and is subject to reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules.

The Conversion Shares to be allotted and issued pursuant to the 2014 Convertible Notes are proposed to be issued pursuant to a specific mandate to be granted by the Independent Shareholders by way of poll at the SGM. Given that each of the Subscription Agreements is conditional to one another, all the transactions contemplated under the Subscription Agreements will be subject to the approval of the Independent Shareholders by way of poll at the SGM and the GI Subscriber, the CTF Subscriber, the SF Subscribers and their respective associates will abstain from voting on the proposed resolution to approve the Subscriptions at the SGM.

Completion of the 2014 GI Subscription Agreement and the 2014 CTF Subscription Agreement is conditional upon, among other things, the Whitewash Waiver being approved by the Independent Shareholders and granted by the Executive. The GI Subscriber, Mr. Lo and his spouse, the CTF Subscriber, Dragon Noble Group Limited, Dato' Dr. Cheng Yu Tung, Dr. Cheng Kar Shun, Henry and his spouse are parties acting in concert with each other in respect of the Company. As at the Latest Practicable Date, the Concert Group held an aggregate of 1,832,458,301 Existing Shares, representing approximately 27.12% of the aggregate voting rights of the Company. Upon full conversion of the aggregate amount of the 2014 GI Convertible Note and the 2014 CTF Convertible Note (based on the maximum respective principal amounts thereof to be issued and the accrued interest thereon) at the initial Conversion Price, it is expected that the aggregate voting rights of the Company held by the Concert Group will increase to approximately 77.21%, assuming no other change to the share capital and shareholding structure of the Company.

Under Rule 26 of the Takeovers Code, the acquisition of voting rights under such circumstances will trigger a mandatory general offer by the GI Subscriber and/or the CTF Subscriber for all the securities of the Company other than those already owned (or agreed to be acquired) by the Concert Group, unless an appropriate waiver is obtained.

An application has been made by the GI Subscriber and the CTF Subscriber to the Executive for the Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders by way of poll at the SGM. Members of the Concert Group and their respective associates and those Shareholders who are involved in or interested in the Subscriptions or the Whitewash Waiver will abstain from voting on the proposed resolution to approve the Whitewash Waiver at the SGM. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the 2014 GI Subscription Agreement and the 2014 CTF Subscription Agreement will not become unconditional and the Subscriptions will not proceed.

Pursuant to the Listing Rules and the Takeovers Code, the Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Peter Pun, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu, has been established to advise the Independent Shareholders as to whether the Subscriptions and the Whitewash Waiver are fair and reasonable and to advise the Independent Shareholders on how to vote on the proposed resolutions in respect thereof at the SGM. Mr. To Hin Tsun, Gerald, a non-executive Director, is not included in the Independent Board Committee as required under the Takeovers Code as Mr. To is currently an executive director of International Entertainment Corporation (stock code: 1009) and a non-executive director of NWS Holdings Limited (stock code: 659) (both of which are controlled by Dato' Dr. Cheng Yu Tung and family, and Dato' Dr. Cheng Yu Tung is the ultimate beneficial owner of the CTF Subscriber). We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regards and our appointment has been approved by the Independent Board Committee.

BASIS OF OUR ADVICE

We are not connected with the Company, the Concert Group, SF Subscribers or any of their respective close associates, associates or core connected persons (all of which as defined in the Listing Rules) or any party acting, or presumed to be acting, in concert with any of them and accordingly, are considered suitable to give independent advice on the Subscriptions and the Whitewash Waiver. Apart from the normal professional fees payable to us in connection with this or similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, the Concert Group, SF Subscribers or any of their respective close associates, associates or core connected persons or any party acting, or presumed to be acting, in concert with any of them.

During the past two years, Somerley Limited (presently known as "Somerley International Limited" and a fellow subsidiary of Somerley Capital Limited) issued an opinion letter as an independent financial adviser contained in the Company's circular dated 18 December 2012 in respect of the issues of the Existing 5% GI Convertible Note and the Existing 5% CTF Convertible Note. This past engagement was limited to providing independent advisory services to independent board committee and independent shareholders of the Company pursuant to the Listing Rules. In addition, Somerley Limited issued a certificate in respect of an independent determination of the adjustment on the conversion price of the Existing SF Convertible Notes (the "**Independent Determination**") as disclosed in the Company's announcement dated 9 January 2013. This past engagement was limited to providing the Independent Determination to the Company pursuant to the terms of the Existing SF Convertible Notes. Under the past engagements, Somerley Limited received normal professional fees from the Company. Notwithstanding the past engagements, as at the Latest Practicable Date, there were no relationships or interests with the Company that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions and the Whitewash Waiver as detailed in the Circular.

In formulating our opinion and recommendation, we have reviewed, amongst others, the Announcement, the Subscription Agreements, the annual reports of the Company for the years ended 31 March 2014 (the "**2014 Annual Report**") and 31 March 2013, the working capital forecast of the Company, the existing convertible notes of the Company and the information contained in the Circular. We have also discussed with and reviewed the information provided by the management of the Group regarding the businesses and outlook of the Group.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group, which we have assumed to be true, accurate, complete and not misleading in all material aspects as at the date of this letter and will remain as at the date of the SGM. The Independent Shareholders will be informed as soon as possible if we become aware of any material change to such information up to the date of completion of the Subscriptions. We have sought and received confirmation from the Directors and the management of the Group that no material facts have been omitted from the information supplied and opinions expressed by them to us. We consider that the information which we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have considered the following principal factors and reasons:

1. Business of and financial information on the Group

(a) Business and outlook of the Group

The Group is an energy and resources developer. The principal project of the Group is the coking coal mining project in Khushuut, Khovd Province, Western Mongolia (the "**Khushuut Coking Coal Project**", the mine site of which is known as the "**Khushuut Coal Mine**").

Despite the continual production halt of the Khushuut Coking Coal Project since October 2012 principally due to the dispute with the former sole mining contractor as well as the global economic downturn which had a negative bearing on the coking coal prices in the PRC, the Group has remained focused on optimising its coal production process and enhancing coal quality as well as appointing external contractors to prepare for the resumption of coal production in the fourth quarter of 2014.

Internally, key measures recently taken by the Group to improve the infrastructures of the Khushuut Coking Coal Project include completion and test run of (i) the dry processing plant in the Khushuut Coal Mine; and (ii) the main operative part of a coal washing plant in Xinjiang, the PRC. If the test runs are smooth, the Group expects these coal processing facilities to formally operate upon coal production in the fourth quarter of 2014. However, the coal production is subject to a number of factors including the successful test runs of its coal processing infrastructures in the Khushuut Coal Mine and in Xinjiang, satisfaction of the customer on coal quality, and market conditions. These infrastructures will complement the Group's coal production process and enhance its coal quality as and when it resumes production. Apart from the upgrade of the infrastructures, the Group appointed an overburden removal contractor in April 2014 to provide blasting, removal of topsoil and overburden covering the coal to be extracted for the subsequent coal mining to take place. The Group also appointed a coal extraction contractor in July 2014 to provide coal extraction services after the coal seam is exposed. The coal extraction contractor also provides loading and haulage of extracted coal services on the mine site. Both contractors are now working at the Khushuut Coal Mine. Apart from the field work contractors, the Group has also appointed external coal trucking companies to provide coal transportation services for its coal export.

Externally, as highlighted by the management of the Group in the 2014 Annual Report, there were encouraging signals released by the Mongolian government that a stable mining sector is being assured. It began with the Mongolian government making a number of amendments to its laws and regulations in order to regain the confidence of foreign investors. In order to enhance the economic growth by increasing export income and stabilising foreign currency rate, the Mongolian government adopted Resolution No.25 in January 2014 regarding "Plan on Measures for Increasing of Export Income". The said plan covers actions to be implemented in hopes of increasing and boosting minerals and coal export. The Group has entered into a co-operation agreement dated 6 March 2014 with the local government for the development of the Khushuut Coking Coal Project in order to obtain support from the local community for ensuring a stable operating environment of the Khushuut Coal Mine. During the year ended 31 March 2014, the Company was informed by its Mongolian legal adviser that the Khushuut Coal Mine was removed from the list of potential strategic deposits to be tabled for consideration at the Mongolian Parliament. Accordingly, the uncertainty of the Mongolian government's participation in the Khushuut Coking Coal Project with unfavourable terms to the Company was eliminated.

In terms of market dynamics, the principal market of the Group's coking coal is the PRC. The prices and demand for coking coal in the Chinese market have been experienced downward trend as the Chinese economic model shifts from focusing on fixed asset investments to consumption and services. The Group remains confident and we concur that given the close proximity and a historical trade links between the PRC and Mongolia, China is anticipated to remain the largest market for the coking coal produced from the Khushuut Coking Coal Project.

(b) Financial information on the Group

(i) Financial results

The following are summaries of the consolidated statement of profit or loss of the Group for the years ended 31 March 2013 and 2014 as extracted from the 2014 Annual Report.

	For the year ended 31 March	
	2014	**2013**
	HK$'000	*HK$'000*
Revenue	498	11,792
Cost of sales	(4,632)	(261,863)
Gross loss	(4,134)	(250,071)
Impairment losses	(259,838)	(3,137,444)
Fair value gain on derivative component of convertible notes	42,392	302,987
Administrative expenses	(182,077)	(179,025)
Others	(262,440)	(39,137)
Finance costs	(372,027)	(388,743)
Loss before taxation	(1,038,124)	(3,691,433)
Income tax expenses	—	(7,385)
Loss for the year and loss for the year attributable to the Shareholders	(1,038,124)	(3,698,818)

During the year ended 31 March 2013, the Group sold 50,350 tonnes of raw coal to the customers in Xinjiang, the PRC, and Mongolia and generated approximately HK$11.8 million in revenue with an average selling price of approximately HK$234 per tonne. The low sales volume and revenue were attributable to (i) the halt of coal production since October 2012 due to the retreat of the sole mining contractor of the Khushuut Coking Coal Project; and (ii) inadequate screening capability on site at the Khushuut Coal Mine. In the following financial year, the coal production halt of the Khushuut Coking Coal Project continued while the Group mainly focused on the construction of coal production infrastructures. Due to the continual coal production halt, the revenue of the Group for the year ended 31 March 2014 was minimal and was mainly related to the sales of 15,300 tonnes of raw coal from the inventory stored at the coal washing plant at Xinjiang, the PRC.

The cost of sales was exceptionally high for the year ended 31 March 2013 as the mining activities carried out during the year failed to produce raw coal at optimum capacity. A total of approximately HK$90.3 million contractor fee was incurred despite the unsatisfactory production progress. The cost of sales for the year ended 31 March 2014 was approximately HK$4.6 million, which mainly comprised a write-down of inventory to net realisable value of approximately HK$4.1 million. As triggered by the coal production halt, all related expenses incurred in the Khushuut Coal Mine of approximately HK$55.7 million for the year ended 31 March 2014 were grouped under the "Others" category in the table above.

During the year ended 31 March 2013, significant impairment losses of over HK$3.1 billion were recognised for assets related to the Khushuut Coking Coal Project due to (i) significant changes of estimate/assumptions made to the value-in-use calculation by the independent valuer in response to the cost structure of the potential coal extraction contractor at the time; (ii) decrease in estimated selling price of coking coals; and (iii) changes made in response to the suspension of coal production. Further impairment losses of approximately HK$259.8 million on assets related to the Khushuut Coking Coal Project were recognised for the year ended 31 March 2014. Such further impairment losses were largely due to the upward adjustments of the discount rate and estimated mining costs used in the value-in-use calculation by the independent valuer.

The derivative components of the existing convertible notes of the Company were initially recorded at fair value at their respective issue dates and re-measured at the end of each reporting period. As the Share price has declined since the respective issue dates of the existing convertible notes, fair value gains on derivative components of the existing convertible notes of approximately HK$303.0 million and HK$42.4 million were recognised for the years ended 31 March 2013 and 2014 respectively.

The Company was default on redemption of the Existing SF Convertible Notes and has triggered the potential early redemption obligation on the Company under the other existing convertible notes of the Company. The Group therefore re-measured the carrying amounts of the other existing convertible notes to their respective redemption amounts. As a result, a loss on re-measurement of the debt component of the existing convertible notes of approximately HK$219.8 million was recorded for the year ended 31 March 2014 under the "Others" category in the table above.

The administrative expenses of the Company mainly comprised (i) staff costs and benefits; (ii) legal and professional fees; and (iii) rental and utilities expenses. The Company recorded administrative expenses of approximately HK$179.0 million and HK$182.1 million for the years ended 31 March 2013 and 2014 respectively.

Finance costs represented interest on borrowings, majority of which were the interest expense on the existing convertible notes. Upon the re-measurement of the Existing 3% CTF Convertible Note, the Existing 5% GI Convertible Note and the Existing 5% CTF Convertible Note in November 2013, the interest expense on the existing convertible notes were charged at their respective coupon rates but not effective rates. As the respective coupon rates were lower than the effective rates, the finance costs for the year ended 31 March 2014 decreased despite the increase in borrowings.

The loss for the year attributable to the Shareholders dropped from approximately HK$3.7 billion for the year ended 31 March 2013 to approximately HK$1.0 billion for the year ended 31 March 2014. The decrease was mainly due to reduction of impairment losses associated with assets related to the Khushuut Coking Coal Project for the year ended 31 March 2014 as compared to the previous year.

(ii) Assets and liabilities

The following are summaries of the consolidated statements of the financial position of the Group as at 31 March 2013 and 2014 as extracted from the 2014 Annual Report.

	As at 31 March	
	2014	**2013**
	HK$'000	*HK$'000*
Non-current assets		
Property, plant and equipment	6,733,169	6,850,079
Other non-current assets	1,195,195	1,379,228
	7,928,364	8,229,307
Current assets	127,794	107,551
Current liabilities		
Convertible notes	2,454,535	741,279
Advances from a Director	780,210	470,013
Others	1,180,701	272,803
	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	—	2,206,661
Deferred income	12,665	—
	12,665	2,206,661
Net assets and equity attributable to the Shareholders	3,628,047	4,646,102

As at 31 March 2014, major assets of the Group were non-current assets including (i) property, plant and equipment mainly associated with the Khushuut Coking Coal Project of approximately HK$6,733.2 million; (ii) intangible assets chiefly representing exclusive right of use of paved road spanning from the Khushuut Coal Mine to the Yarant border crossing with Xinjiang, the PRC of approximately HK$852.8 million; and (iii) the exploration and evaluation assets associated with other mineral resources of approximately HK$285.7 million. The decrease in the non-current assets between 31 March 2013 and 31 March 2014 was a result of, among others, the impairment losses of approximately HK$259.8 million made in respect of the assets related to the Khushuut Coking Coal Project.

As at 31 March 2014, current assets of the Group mainly comprise cash and cash equivalents, other receivables, prepayments and deposits as well as held-for-trading investments. The increase in the current assets of the Group from approximately HK$107.6 million as at 31 March 2013 to approximately HK$127.8 million as at 31 March 2014 was mainly attributable to the increase in held-for-trading investments of approximately HK$29.8 million.

As at 31 March 2014, liabilities of the Group mainly comprised (i) the existing convertible notes of approximately HK$2,454.5 million; (ii) advances from Mr. Lo of approximately HK$780.2 million; and (iii) other financial liabilities of approximately HK$806.0 million. The balance of the existing convertible notes as at 31 March 2014 classified as current liabilities consisted of the outstanding amount of the principal and accrued interest of the Existing 3% CTF Convertible Note, the Existing 5% CTF Convertible Note and the Existing 5% GI Convertible Note. The aggregate balance of the existing convertible notes decreased from approximately HK$2,947.9 million as at 31 March 2013 to approximately HK$2,454.5 million as at 31 March 2014 was mainly due to the reclassification of the outstanding amount of the principal and accrued interest of the Existing 3.5% GI Convertible Note and the Existing SF Convertible Notes to other financial liabilities upon the expiries of the aforesaid two existing convertible notes on 6 September 2013 and 12 November 2013 respectively. Mr. Lo provided a standby facility of up to HK$1,900.0 million, of which approximately HK$1,119.8 million was unutilised as at 31 March 2014, with maturity date on 31 March 2016. The facilities are unsecured and carry an interest rate at Hong Kong prime lending rate plus 3% per annum. Set out below is a summary of the Group's principal liabilities as at 31 March 2014.

Convertible note/facility	**Conversion price** *(per Share)*	**Principal amount** *(HK$ million)*	**Interest** *(per annum)*	**Maturity date**	**Status**
Existing 3.5% GI Convertible Note	HK$4.00	300.0	3.5%	6 September 2013(1)	Expired(2)
Existing SF Convertible Notes	HK$2.68	466.8	3.5%	12 November 2013(1)	Expired(3)
Existing 3% CTF Convertible Note	HK$2.00	2,000.0	3.0%	15 June 2014(1)	Expired
Existing 5% GI Convertible Note	HK$0.36	200.0	5.0%	8 January 2016	Current
Existing 5% CTF Convertible Note	HK$0.36	200.0	5.0%	8 January 2016	Current
Mr. Lo's standby facility(4)	N/A	780.2	Hong Kong prime lending rate plus 3%	31 March 2016	Current

Notes:

1. Moratorium on repayment of the respective principals and interests due under the Existing 3.5% GI Convertible Note, the Existing SF Convertible Notes and the Existing 3% CTF Convertible Note was up to 19 September 2014, which had been further extended to the completion date of the 2014 Convertible Notes.

2. As at 31 March 2014, included in other financial liabilities was the Existing 3.5% GI Convertible Note of approximately HK$316.6 million, which was reclassified from convertible notes to other financial liabilities on its maturity. The loan is unsecured, bears interest at a fixed rate of 3.5% per annum and was repayable on 19 September 2014, which had been further extended to the completion date of the 2014 Convertible Notes.

3. As at 31 March 2014, included in other financial liabilities were the Existing SF Convertible Notes of approximately HK$489.4 million, which were reclassified from convertible notes to other financial liabilities on their maturity. The loans are unsecured, bear interest at a fixed rate of 3.5% per annum and were repayable on 19 September 2014, which had been further extended to the completion date of the 2014 Convertible Notes.

4. Mr. Lo has provided a standby facility of up to HK$1,900 million to the Company for its general working capital with maturity on 31 March 2016. As at 31 March 2014, a total of approximately HK$780.2 million was drawn by the Company. The loan is unsecured and repayable on demand. The interest expense charged by the standby facility is at the Hong Kong prime lending rate plus 3% per annum.

Based on the net asset value attributable to the Shareholders of approximately HK$3,628.0 million as at 31 March 2014 and 6,756,547,828 Existing Shares in issue as at the Latest Practicable Date, the net asset value attributable to the Shareholders per Existing Share or per New Share (as adjusted for the effect of the Capital Reorganisation) were approximately HK$0.5370 or HK$2.148 respectively.

In view of (i) the encouraging developments in the operation of the Khushuut Coking Coal Project; (ii) the positive outlook for the Group given the improving government policy in mining sector of Mongolia; (iii) the resumption of coal production in the fourth quarter of 2014 will be an opportunity of the Group to improve its financial performance in the long run; and (iv) the unsatisfactory working capital and gearing positions of the Group and the pressure of repayment of the expired existing convertible notes, we agree that a refinancing arrangement is necessary for the Group to refinance the expired existing convertible notes and to free up general working capital for the Group to further develop the Khushuut Coking Coal Project.

2. Reasons for and use of proceeds of the Subscriptions

As set out in the letter from the Board of the Circular, upon expiry of the Existing 3.5% GI Convertible Note, the Existing 3% CTF Convertible Note and the Existing SF Convertible Notes, the Company exercised its best endeavor to engage in negotiations with the Subscribers for the refinancing arrangement and finally reached a mutually acceptable debt restructuring plan by entering into the Subscription Agreements with the Subscribers.

The subscription price of the 2014 Convertible Notes will be used by the Company for (i) the full settlement of the outstanding principal amount and accrued interest of the existing expired convertible notes; and (ii) the early redemption of the outstanding principal amount and accrued interest of the existing unexpired convertible notes, on the respective completion dates of the Subscription Agreements. The maximum aggregate amount of the refinancing involved in the Subscriptions is approximately HK$3,470.1 million (being the total outstanding principal amount and accrued interest owing under the existing convertible notes calculated up to the Long Stop Date).

We note that the executive Directors are of the view that, after taking into account that: (i) the full settlement of the outstanding principal amounts and accrued interest of the Existing 3.5% GI Convertible Note, the Existing 3% CTF Convertible Note and the Existing SF Convertible Notes with the issue of the 2014 Convertible Notes will not exert immediate cash outflow burden on the Group; (ii) the early redemption of the Existing 5% GI Convertible Note and the Existing 5% CTF Convertible Note with the issue of the 2014 GI Convertible Note and the 2014 CTF Convertible Note bearing interest at 3% per annum will reduce the Group's payable interests; (iii) the Subscriptions will secure the continuing financial support from the Subscribers to the Group's business development and operation; (iv) the prevailing market prices and trading volume of the Shares and/or the current financial position of the Group may not be favourable to a fund raising exercise for substantial amount by way of issue of new Shares to independent third party(ies) or to existing Shareholders on a pro rata basis (e.g. rights issue and open offer) where considerable discount to the market prices of the Shares would be required after the Company's enquiry of certain brokerage houses with no favourable responses; and (v) the issue of the 2014 Convertible Notes will not lead to immediate dilution on the shareholding interests of the existing Shareholders, the issue of the 2014 Convertible Notes is an appropriate debt restructuring plan for the Company.

3. Financing alternatives available to the Group

We have reviewed whether there are other financing alternatives which were available to the Group other than the 2014 Convertible Notes and examined the reasons why they were not adopted.

As advised by the management of the Group, the Company has considered other forms of equity financing. The prevailing market prices and trading volume of the Shares and/or the current financial position of the Group may not be favourable to any fund raising exercises for substantial amount by way of issue of new Shares to independent third party(ies) (e.g. new share placement) or to existing Shareholders on a pro rata basis (e.g. rights issue or open offer) where considerable discount to the market prices of the Shares would be required after the Company's enquiry of certain brokerage houses with no favourable responses, whereas the initial Conversion Price of HK$0.230 per Conversion Share was set at a premium of approximately 1.32% over the closing price of the Shares on the Last Trading Day. Furthermore, fund raising by way of new share placement will create immediate dilution on the shareholding of the existing Shareholders. On the other hand, fund raising through rights issue or open offer will attract higher transaction costs (such as underwriting and other fees) and dilution effects on those non-participating Shareholders will usually be greater as compared to new share placement and issue of convertible notes. We understand that the current debt restructuring proposal was arrived at after due and careful consideration of various alternatives by the executive Directors. The executive Directors consider and we concur with the executive Directors' view that the issue of the 2014 Convertible Notes is an appropriate debt restructuring plan for the Company.

4. Principal terms of the 2014 Convertible Notes

(a) Subject

On 19 September 2014, the Company entered into the 2014 GI Subscription Agreement pursuant to which the Company (as issuer) has conditionally agreed to issue and the GI Subscriber (as subscriber) has conditionally agreed to subscribe for the 2014 GI Convertible Note at the subscription price which will be used for full settlement of the outstanding principal amount and accrued interest of the Existing 3.5% GI Convertible Note due and owing by the Company to the GI Subscriber on the GI Completion Date and for early redemption of the outstanding principal amount and accrued interest of the Existing 5% GI Convertible Note on the GI Completion Date. The GI Subscriber has, subject to the terms and conditions of the 2014 GI Subscription Agreement, agreed to extend the date of repayment of the aggregate outstanding amount owing under the Existing 3.5% GI Convertible Note to the GI Completion Date. The GI Subscriber agrees not to exercise the conversion right under the Existing 5% GI Convertible Note until the GI Completion Date. The aggregate outstanding amount under the Existing 3.5% GI Convertible Note and the Existing 5% GI Convertible Note was approximately HK$538.8 million as at the date of the 2014 GI Subscription Agreement and will be approximately HK$542.9 million as at the Long Stop Date.

On 19 September 2014, the Company entered into the 2014 CTF Subscription Agreement pursuant to which the Company (as issuer) has conditionally agreed to issue and the CTF Subscriber (as subscriber) has conditionally agreed to subscribe for the 2014 CTF Convertible Note at the subscription price which will be used for full settlement of the outstanding principal amount and accrued interest of the Existing 3% CTF Convertible Note due and owing by the Company to the CTF Subscriber on the CTF Completion Date and for early redemption of the outstanding principal amount and accrued interest of the Existing 5% CTF

Convertible Note on the CTF Completion Date. The CTF Subscriber has, subject to the terms and conditions of the 2014 CTF Subscription Agreement, agreed to extend the date of repayment of the aggregate outstanding amount owing under the Existing 3% CTF Convertible Note to the CTF Completion Date. The CTF Subscriber agrees not to exercise the conversion right under the Existing 5% CTF Convertible Note until the CTF Completion Date. The aggregate outstanding amount under the Existing 3% CTF Convertible Note and the Existing 5% CTF Convertible Note was approximately HK$2,413.1 million as at the date of the 2014 CTF Subscription Agreement and will be approximately HK$2,426.9 million as at the Long Stop Date.

On 19 September 2014, the Company entered into the 2014 SF Subscription Agreement pursuant to which the Company (as issuer) has conditionally agreed to issue and the SF Subscribers (as subscribers) have conditionally agreed to subscribe for the 2014 SF Convertible Notes at the subscription price which will be used for full settlement of all outstanding principal amount and accrued interest of the Existing SF Convertible Notes due and owing by the Company to the SF Subscribers on the SF Completion Date. The SF Subscribers have, subject to the terms and conditions of the 2014 CTF Subscription Agreement, agreed to extend the date of repayment of the aggregate outstanding amount owing under the Existing SF Convertible Notes to the SF Completion Date. The aggregate outstanding amount under the Existing SF Convertible Notes was approximately HK$497.1 million as at the date of the 2014 SF Subscription Agreement and will be approximately HK$500.3 million as at the Long Stop Date.

The 2014 GI Subscription, the 2014 CTF Subscription, the 2014 SF Subscription and the Whitewash Waiver are part and parcel to the whole debt restructuring plan under the Subscriptions. The Subscription Agreements are inter-conditional on one other and completion of the Subscription Agreements shall take place simultaneously. Shareholders' attention are also drawn to the conditions precedent set out in the paragraph headed "Conditions precedent" in each of the sections headed "2014 GI Subscription Agreement", "2014 CTF Subscription Agreement" and "2014 SF Subscription Agreement" in the letter from the Board of the Circular.

The principal terms of the 2014 Convertible Notes are set out in the letter from the Board of the Circular. Our analyses of each of them are set out below.

(b) Conversion Price

The initial Conversion Price (subject to adjustments as set out in the section headed "Principal terms of the 2014 Convertible Notes" in the letter from the Board in the Circular), being HK$0.230 per Existing Share (for illustration purpose, approximately HK$0.920 per New Share), represents:

(i) a premium of approximately 1.3% over the adjusted closing price of HK$0.908 per New Share (based on the closing price of HK$0.227 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation);

(ii) a premium of approximately 1.8% over the adjusted average closing price of approximately HK$0.904 per New Share (based on the average closing price of approximately HK$0.226 per Existing Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation);

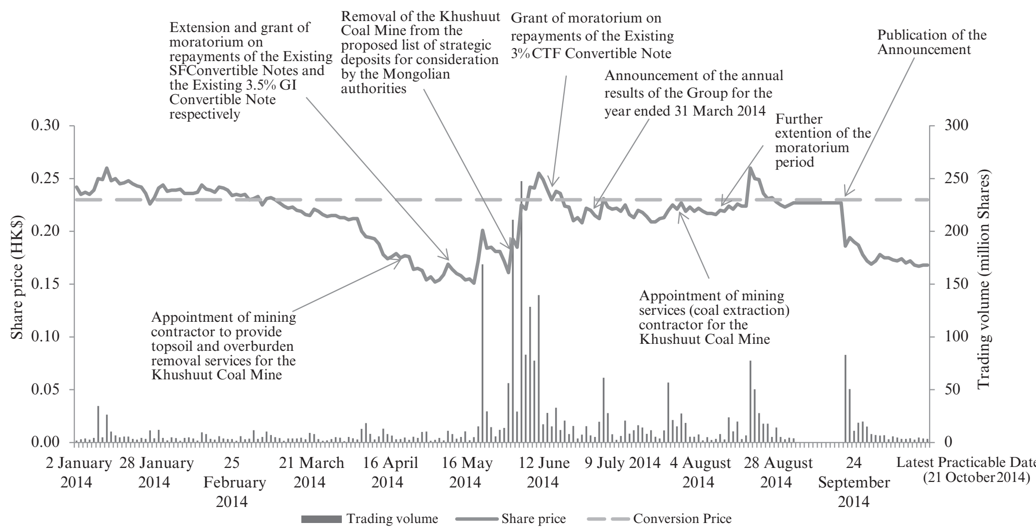
(iii) a discount of approximately 1.3% to the adjusted average closing price of approximately HK$0.932 per New Share (based on the average closing price of approximately HK$0.233 per Existing Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation);

(iv) a premium of approximately 36.9% over the adjusted closing price of HK$0.672 per New Share (based on the closing price of HK$0.168 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation); and

(v) a discount of approximately 57.2% to the adjusted audited consolidated net assets value of approximately HK$2.148 per New Share (based on the audited consolidated net assets value of approximately HK$0.537 per Existing Share (calculated from the audited consolidated net assets value of Company attributable to the Shareholders of approximately HK$3,628.0 million as at 31 March 2014 and 6,756,547,828 Existing Shares in issue as at the Latest Practicable Date) and adjusted for the effect of the Capital Reorganisation).

We understand that the initial Conversion Price was determined after arm's length negotiation between the Company and the Subscribers after taking into account the prevailing market price of the Existing Shares, the Capital Reorganisation, the operation and financial performance of the Group and the current market conditions.

In order to assess the fairness and reasonableness of setting the initial Conversion Price at HK$0.230 per Conversion Share, we have analysed the recent Share price performance. Set out in the chart below are the historical closing price and trading volume of the Existing Shares from the beginning of 2014 and up to and including the Latest Practicable Date (the "**Review Period**"). We consider that the 10-month Review Period a reasonable period of time within which the prevailing market price of the Existing Shares can be illustrated. As set out in the discussion below, the Company announced a number of developments during the Review Period which we consider to be crucial in shaping the market price of the Existing Shares.



Source: Bloomberg

During the Review Period, the closing prices of the Existing Shares ranged from the lowest of HK$0.151 per Share to the highest of HK$0.260 per Share. During the Review Period, the Share price fell from the aforesaid highest price level in middle of January 2014 and oscillated downwards continuously. The Share price reached a trough in early to middle of May 2014 and rebounded since early June 2014 after the announcements of a couple of positive developments of the Company including the appointment of a mining services (removal of topsoil and overburden) contractor, extension and grant of moratorium on repayments of certain outstanding convertible notes of the Company and the removal of the Khushuut Coal Mine from the proposed list of strategic deposits for consideration by the Mongolian Parliament in late April 2014 to middle of June 2014. On 11 June 2014, the Share price was closed almost at par with the previous height of HK$0.260 per Share where the Existing Shares closed at HK$0.255 apiece. Thereafter and until the publication of the Announcement, the Existing Shares traded at a narrower band between HK$0.208 per Share and HK$0.260 per Share but were unable to break through the HK$0.260 per Share mark following the releases of announcements of the annual results of the Group for the year ended 31 March 2014 and the appointment of another mining services (coal extraction) contractor. Since the publication of the Announcement and up to and including the Latest Practicable Date, the share price of the Existing Shares slid downwards and the closing prices were in-between HK$0.167 per Share and HK$0.194 per Share with an average of approximately HK$0.175 per Share.

The Share price level in the Review Period appears to have already reflected all the sentiments revolved around the challenges faced by the Company in 2014. The average closing price of an Existing Share during the Review Period was approximately HK$0.213 while the initial Conversion Price of HK$0.230 per Conversion Share represents a premium of approximately 8.0% over the average closing price per Share for this period.

Based on the above factors, we consider the initial Conversion Price to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(c) Maturity

The maturity of the 2014 Convertible Notes is the fifth anniversary from the date of their issue and the Company shall redeem 100% of the respective outstanding principal amounts of the 2014 Convertible Notes at par together with all interest accrued thereon on the maturity date.

As discussed with the management of the Group, the coal production of the Khushuut Coal Mine was planned to commence in the fourth quarter of 2014 and the business activities of the Group will, upon resolving the technical issues associated with coal processing, enhancing coal quality and appointment of the external contractors, expand considerably relative to what was achieved in the past few years. The five-year term of the 2014 Convertible Notes shall provide the Group with adequate time to build up its full-scale mining operation before the repayment of the 2014 Convertible Notes falls due. It also relieves the Group's financial pressure during this period before the Khushuut Coal Mine comes to a full scale coal production.

(d) Conversion, repurchase and redemption

Holders of the 2014 Convertible Notes have the right to convert, with a minimum aggregate amount of HK$1 million and HK$1,000 integral multiples thereof, during the term of the 2014 Convertible Notes, all or any part of the outstanding principal amount and any accrued but unpaid interest of the 2014 Convertible Notes into Conversion Shares at the Conversion Price (subject to adjustments).

The Company or any of its subsidiaries may at any time and from time to time repurchase the 2014 Convertible Notes or any part thereof at any price, in the open market or otherwise, as may be agreed between the Company or such subsidiary and the holder(s) of the 2014 Convertible Note(s). The 2014 Convertible Note(s) or any part thereof so repurchased shall forthwith be cancelled by the Company.

The Company also has the right to redeem the whole or any part (in denomination of HK$1,000) of the outstanding principal amount of the 2014 GI Convertible Note and/or the 2014 CTF Convertible Note together with all interest accrued thereon during their respective term.

We consider the above terms of the 2014 GI Convertible Note and the 2014 CTF Convertible Note to be favourable to the Company as these options provide more flexibility to the Company for retirements of the 2014 GI Convertible Note and the 2014 CTF Convertible Note.

(e) Interest rate

The 2014 Convertible Notes carry an interest rate of 3% per annum on the principal amount from time to time outstanding which is payable in arrears on the maturity date of the 2014 Convertible Notes.

Having taken into account the fact that (i) the refinancing requirement of the Group as discussed in the section headed "2. Reasons for and use of proceeds of the Subscriptions" above in this letter; (ii) the issue of the 2014 Convertible Notes is the preferred method of financing in light of prevailing market prices and trading volume of the Shares and the current financial position of the Group as discussed in the section headed "3. Financing alternatives available to the Group" above in this letter; (iii) the interest rate of 3% per annum of the 2014 Convertible Notes is close to the average interest rates charged by the Comparable Transactions (as defined below) as discussed in the section headed "5. Comparable Transactions" below in this letter and is lower than (a) the interest rates of the existing unexpired convertible notes of the Company (i.e. the Existing 5% GI Convertible Note and the Existing 5% CTF Convertible Note); and (b) the interest rate charged on the advances from Mr. Lo; and (iv) the unsecured nature of the 2014 Convertible Notes, we consider that the 3% interest rate attached to the 2014 Convertible Notes to be acceptable.

(f) Other terms of the 2014 Convertible Notes

The 2014 Convertible Notes are freely transferable, in whole or in part (in authorised denomination of HK$1,000 or its multiples) of the outstanding principal amount, to any person, subject to the respective terms of the 2014 Convertible Notes, the Listing Rules and all applicable laws and regulations. We consider the availability of such terms provides protection to the Company for the purposes of general regulatory compliance and such terms are generally in line with market practice.

5. Comparable Transactions

In assessing the terms of the 2014 Convertible Notes, we have also reviewed a number of comparable transactions took place during the Review Period (up to 4:00 p.m. on the Latest Practicable Date) which involved the issue of convertible bonds/notes (the "**Comparable Transactions**"). The Comparable Transactions are selected based on the following criteria: (i) the issuers are listed on the Stock Exchange and such transactions are publicly announced by way of announcement pursuant to the Listing Rules; (ii) the market capitalisation of each issuer is comparable to that of the Company (i.e. within the range between 0.5 time to 2 times of the market capitalisation of the Company as at the Latest Practicable Date); and (iii) the convertible bonds/notes have a duration of 3 to 5 years. The Comparable Transactions were considered an exhaustive list of transactions based on the aforesaid criteria.

We note that although the business activities, financial positions, business performances and future prospects of the issuers engaging in the Comparable Transactions vary from company to company, we consider that the terms of the Comparable Transactions were determined under similar market conditions and sentiments as the 2014 Convertible Notes and the Comparable Transactions serve as a reasonable proxy of the recent trend in convertible bonds/notes issues in the Hong Kong market. Furthermore, as there were 19 Comparable Transactions in the 10-month review period, representing a reasonable number for our comparison purpose, we consider the selection of the 10-month review period appropriate for our analysis and the Comparable Transactions are a fair and representative sample.

The Comparable Transactions are set out in the table below.

Date of announcement	Name of company	Stock code	Market capitalisation *(HK$' million)*	Interest rate *(per annum)*	Duration *(number of years)*	Premium/(discount) of conversion price over/(to) the share price of last trading day prior to the publication of the relevant announcement	last 5 trading days prior to the publication of the relevant announcement	Redemption on maturity
14 January 2014	Green International Holdings Limited	2700	756	(1) 5.0%	3	(9.09)%	(6.72)%	100.00%
21 January 2014	Ping Shan Tea Group Limited	364	1,246	4.0%	3	5.00%	(7.49)%	100.00%
28 January 2014	Hong Kong Resources Holdings Company Limited ("**HK Resources**")	2882	708	3.0%	5	(2) (2.17)%	(2) 3.45%	100.00%
30 January 2014	Sunway International Holdings Limited	58	570	0.0%	3	(14.29)%	9.73%	(3) Not applicable
1 April 2014	Crosby Capital Limited	8088	608	5.0%	3	12.68%	12.36%	Not stated
4 April 2014	Sheen Tai Holdings Group Company Limited	1335	643	3.0%	3	(14.09)%	(3.38)%	Not stated
17 April 2014	Kiu Hung Energy Holdings Limited	381	1,073	0.0%	3	(27.54)%	(23.08)%	Not stated
30 April 2014	Cosmopolitan International Holdings Limited	120	816	2.5%	3	(4) 29.63%	(4) 29.31%	100.00%
30 April 2014	Cosmopolitan International Holdings Limited ("**Cosmopolitan**")	120	816	3.5%	Up to 3	(4) 48.15%	(4) 47.78%	100.00%
5 May 2014	China Print Power Group Limited	6828	1,806	0.0%	3	(12.92)%	(14.31)%	Not stated
14 May 2014	China Ocean Shipbuilding Industry Group Limited	651	1,928	7.5%	3	(33.33)%	(21.20)%	100.00%
5 June 2014	China Investments Holdings Limited	132	925	2.0%	5	18.75%	22.19%	100.00%
13 June 2014	National United Resources Holdings Limited	254	599	0.0%	5	(6.54)%	(8.17)%	100.00%
18 June 2014	China Putian Food Holding Limited	1699	952	(5) 10.5%	3	(8.45)%	(7.80)%	115.00%
5 August 2014	Beijingwest Industries International Limited	2339	957	0.0%	5	(11.36)%	(9.72)%	100.00%
14 August 2014	South Sea Petroleum Holdings Limited ("**South Sea Petroleum**")	76	1,874	0.0%	Up to 4.25	(1.19)%	0.00%	Not stated
30 September 2014	Blue Sky Power Holdings Limited	6828	1,806	8.0%	3	1.55%	3.36%	104.00%
7 October 2014	Blue Sky Power Holdings Limited	6828	1,806	0.0%	3	(10.19)%	(6.23)%	Not stated
20 October 2014	ZMFY Automobile Glass Services Limited	8135	624	1.0%	3	(20.00)%	(10.61)%	100.00%
			Average	2.89%	(6) 3.49	(2.92)%	0.50%	101.58%
			Median	2.50%	3.00	(8.45)%	(6.23)%	100.00%
			Maximum	10.50%	5.00	48.15%	47.78%	115.00%
			Minimum	0.00%	3.00	(33.33)%	(23.08)%	100.00%
19 September 2014	**The Company — The 2014 Convertible Notes**	**276**	**1,122**	**3.0%**	**5**	**1.32%**	**1.95%**	**100.00%**

Sources: Website of the Stock Exchange and Bloomberg

Notes:

1. The interest payment is payable upon maturity and no interest payment is required if the relevant convertible bonds/notes are previously redeemed or converted.

2. The price comparisons of the issue of the convertible bonds by HK Resources are made with reference to closing prices of HK Resources on and prior to 1 November 2013, being the last trading date immediate before the publication of the joint announcement of HK Resources

and Luk Fook Holdings (International) Limited dated 5 November 2013 in relation to a memorandum of understanding regarding, among other things, the issue of the convertible bonds by HK Resources.

3. The convertible notes issued by Sunway is subject to mandatory conversion upon maturity.

4. The price comparisons of the issue of the convertible bonds by Cosmopolitan are made with reference to closing prices of Cosmopolitan on and prior to 30 April 2014 after adjusted for an open offer conducted by Cosmopolitan before the issue of the convertible bonds by Cosmopolitan.

5. The interest rate includes an administrative fee of 1.0% per annum.

6. For the purpose of computation of the average duration, the convertible bonds/notes of Cosmopolitan and South Sea Petroleum with duration of up to 3 years and up to 4.25 years are assumed to be 3 years and 4.25 years respectively.

7. Chun Wo Development Holdings Limited ("**Chun Wo**", stock code: 711) announced the issue of convertible bonds on 20 October 2014. The statistics of the convertible bonds proposed to be issued by Chun Wo are considered not applicable for our analysis as such issue is part of a takeover transaction involving Chun Wo and therefore such issue is not included in the table above.

As set out in the table above, the interest rate of the 2014 Convertible Notes of 3% per annum is close to the average of 2.89% and higher than the median of 2.50% of that of the Comparable Transactions.

The premium of the initial Conversion Price over the closing price of the Shares on the Last Trading Day for the 2014 Convertible Notes is 1.32%, which is higher than the average of 2.92% discount and the median of 8.45% discount of that of the Comparable Transactions. When compared to a 5-day average share price prior to the entering into the relevant issue of the convertible notes/bonds, the premium of the initial Conversion Price over the 5-day average closing price of the Shares for the 2014 Convertible Notes increases slightly to 1.95%, which is also higher than the average of 0.50% premium and the median of 6.23% discount of that of the Comparable Transactions.

Based on our analyses in section headed "4. Principal terms of the 2014 Convertible Notes" and this section, we concur with the executive Directors' view that the terms of the Subscription Agreements are on normal commercial terms and fair and reasonable, and the transactions contemplated under the Subscription Agreements are in the interests of the Company and the Shareholders as a whole.

6. Financial effects of the Subscriptions on the Group

(a) Net asset value

As advised by the management of the Company and based on the accounting policies of the Group, the 2014 Convertible Notes to be issued by the Company will contain both debt and conversion option components, both being accounted for as liabilities, and will be classified separately on initial recognition. As the subscription prices of the 2014 Convertible Notes will be used by the Company for settlement and early redemption of the existing convertible notes of the Company, it is anticipated that, save for the relevant transaction costs, the impact of the Subscriptions on the net asset value of the Company will not be significant upon completion of the Subscriptions.

(b) Earnings

As advised by the management of the Company and based on the accounting policies of the Group, the debt component of the 2014 Convertible Notes will be carried at amortised cost using the effective interest method in subsequent periods. The effective interest expenses of the 2014 Convertible Notes will be charged to the consolidated statement of profit or loss of the Group subsequent to the issue of the 2014 Convertible Notes. The finance costs which are calculated based on effective interest of the 2014 Convertible Notes will continuously be incurred by the Group until conversion and/or redemption of the 2014 Convertible Notes in full. In addition, the conversion option (i.e. derivative) component of the 2014 Convertible Notes will be measured at fair value with changes in fair value recognised in the consolidated statement of profit and loss of the Group.

Although the finance costs and the changes in fair value of the conversion option component of the 2014 Convertible Notes may create negative impact on the future earnings of the Group, the issue of the 2014 Convertible Notes is considered necessary in order to allow the Group to facilitate its mining operation in the Khushuut Coking Coal Project and the refinancing requirement of the Group as discussed in section headed "2. Reasons for and use of proceeds of the Subscriptions" above in this letter.

(c) Working capital

As at 31 March 2014, the Group had net current liabilities of approximately HK$4,287.7 million. Upon completion of the Subscriptions, the subscription price of the 2014 Convertible Notes (being a maximum of approximately HK$3,470.1 million based on the total outstanding principal amount and accrued interest owing under the existing convertible notes calculated up to the Long Stop Date) will be used for the settlement of all the existing convertible notes of the Company, all of which are current liabilities. As the duration of the 2014 Convertible Notes will be 5 years, the 2014 Convertible Notes will be initially classified as non-current liabilities. This effectively refinances the aforesaid current liabilities with non-current liabilities. Accordingly, the working capital position of the Group are expected to be improved upon completion of the Subscriptions.

7. Potential dilution effect on the shareholdings of the Independent Shareholders

Assuming that the Capital Reorganisation has become effective and there is no other change to the issued share capital and shareholding structure of the Company from the Latest Practicable Date up to the date when all the 2014 Convertible Notes are converted, the full conversion of the 2014 Convertible Notes will result in an allotment and issue of no more than approximately 17,350.6 million Conversion Shares (before the Capital Reorganisation becoming effective) approximately or 4,337.6 million Conversion Shares (after the Capital Reorganisation becoming effective), which represents approximately 256.80% of the entire issued share capital of the Company at the Latest Practicable Date and approximately 71.97% of the entire issued share capital of the Company as enlarged by the issue of the Conversion Shares. Dilution effect on the existing public Shareholders is approximately 52.37% (from approximately 72.77% to approximately 20.40%). We consider the aforesaid dilution effect acceptable in light of (i) the low level of cash holdings of the Group of approximately HK$48.6 million as at 31 March 2014; (ii) the pressing need to refinance the existing liabilities of the Group as most of them have fallen due or about to; and (iii) the other forms of equity financing are limited, means the existing public Shareholders may suffer from a greater degree of dilution.

8. Whitewash Waiver

Upon full conversion of the aggregate amount of the 2014 GI Convertible Note and the 2014 CTF Convertible Note (based on the maximum respective principal amounts thereof to be issued and the accrued interest thereon) at the initial Conversion Price, it is expected that the aggregate voting rights of the Company held by the Concert Group will increase to approximately 77.21%, assuming no other change to the share capital and shareholding structure of the Company. Under Rule 26 of the Takeovers Code, the acquisition of voting rights under such circumstances will trigger a mandatory general offer by the GI Subscriber and/or the CTF Subscriber for all the securities of the Company other than those already owned (or agreed to be acquired) by the Concert Group, unless an appropriate waiver is obtained. An application has been made by the GI Subscriber and the CTF Subscriber to the Executive for the Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders by way of poll at the SGM. Members of the Concert Group and their respective associates and those Shareholders who are involved in or interested in the Subscriptions or the Whitewash Waiver will abstain from voting on the proposed resolution to approve the Whitewash Waiver at the SGM.

Independent Shareholders should note that the 2014 GI Subscription and the 2014 CTF Subscription are conditional on, among others, the granting of the Whitewash Waiver by the Executive and the approval of the Whitewash Waiver by the Independent Shareholders by way of poll at the SGM. Such condition cannot be waived under the terms of the 2014 GI Subscription Agreement and the 2014 CTF Subscription Agreement. If the Whitewash Waiver is not granted by the Executive or if the Whitewash Waiver is not approved by the Independent Shareholders, the 2014 GI

Subscription Agreement and the 2014 CTF Subscription Agreement will lapse. In such circumstances, the SF Subscription Agreement will also lapse given the Subscription Agreements are inter-conditional on one other. Based on the principal factors and reasons as set forth above, we do not see the merit to be gained by the Independent Shareholders for not voting in favour of the resolution to approve the Whitewash Waiver. Failure to approve the resolution in relation to the Whitewash Waiver would cause the Subscription Agreements to lapse.

DISCUSSION AND ANALYSIS

The Khushuut Coking Coal Project, being the principal project of the Group, has experienced significant operational difficulties in the last few years and has been in continual production halt since October 2012. Nevertheless, there were encouraging developments in the operation of the Khushuut Coking Coal Project and the outlook has become more favourable given the improving government policy in the mining sector of Mongolia since the last financial year. It is currently expected that the coal production of the Khushuut Coking Coal Project will be resumed in the fourth quarter of 2014.

Due to the operational difficulties and the continual production halt of the Khushuut Coking Coal Project since October 2012, the Group recorded substantial losses in the last few years. The financial positions, in particular working capital and gearing levels, were unsatisfactory. To make matters worse, a substantial amount of the existing liabilities of the Group, mostly the existing convertible notes, have fallen due or about to. Accordingly, we agree that a refinancing arrangement is necessary for the Group to refinance the existing expired convertible notes and to free up general working capital for the Group to further develop the Khushuut Coking Coal Project.

The terms of the 2014 Convertible Notes, including but not limited to the Conversion Price, maturity, repurchase, redemption and interest rate, are considered to be favourable or acceptable to the Company. In particular, the comparison of the initial Conversion Price of the 2014 Convertible Notes against the recent closing price of the Shares is considered to be favourable to the Company when compared with that of the Comparable Transactions. In addition, the interest rate of the 2014 Convertible Notes of 3% per annum is close to the average of that of the Comparable Transactions.

The financial impact of the Subscriptions on the Group is considered to be favourable in general having taken into account the working capital position of the Group will be significantly enhanced upon completion of the Subscriptions. The improvement of the Group's working capital position is necessary to facilitate the mining operation in the Khushuut Coking Coal Project.

Assuming no other change to the issued share capital and shareholding structure of the Company from the Latest Practicable Date up to the date when all the 2014 Convertible Notes are converted, dilution effect resulting from full conversion of the 2014 Convertible Notes on the existing public Shareholders is approximately 52.37% (from approximately 72.77% to approximately 20.40%). We consider the aforesaid dilution effect acceptable in light of (i) the low level of cash holdings of the Group; (ii) the pressing need to refinance the existing liabilities of the Group as most of them have fallen due or about to; and (iii) the other forms of equity financing are limited, means the existing public Shareholders may suffer from a greater degree of dilution.

The 2014 GI Subscription and the 2014 CTF Subscription are conditional on, among others, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM. If the Whitewash Waiver is not approved by the Independent Shareholders, the 2014 GI Subscription Agreement and the 2014 CTF Subscription Agreement will lapse. In such circumstances, the SF Subscription Agreement will also lapse given the Subscription Agreements are inter-conditional on one other. Based on the principal factors and reasons as set forth above, we do not see the merit to be gained by the Independent Shareholders for not voting in favour of the resolution to approve the Whitewash Waiver.

OPINION AND RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the Subscriptions, though not entered into in the ordinary and usual course of business of the Group, are on normal commercial terms, and the terms of the Subscription Agreements and the transactions contemplated thereunder and the Whitewash Waiver are fair and reasonable as far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions approving the Subscriptions and the Whitewash Waiver at the SGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Kenneth Chow
Managing Director — Corporate Finance

Danny Cheng
Director

Mr. Kenneth Chow is a licensed person registered with the SFC and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in corporate finance industry.

Mr. Danny Cheng is a licensed person registered with the SFC and as a responsible officer of Somerley to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.

1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated financial information of the Group for the years ended 31 March 2012, 2013 and 2014, as extracted and summarised from the annual reports of the Company for the years ended 31 March 2012, 2013 and 2014:

Results

	For the year ended 31 March		
	2014	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	498	11,792	6,215
Cost of sales	(4,632)	(261,863)	(100,610)
Gross loss	(4,134)	(250,071)	(94,395)
Other income	322	5,056	2,303
Other gains and losses	(207,028)	(12,333)	(107,891)
Other expenses	(55,734)	(31,860)	—
Administrative expenses	(182,077)	(179,025)	(210,297)
Fair value gain on derivative component of convertible notes	42,392	302,987	432,016
Impairment loss on property, plant and equipment	(224,011)	(2,749,126)	(4,018,605)
Impairment loss on intangible assets	(28,416)	(373,318)	(562,835)
Impairment loss on development in progress	(981)	(12,488)	(18,560)
Impairment loss on available-for-sale financial asset	(934)	—	(6,797)
Impairment loss on amounts due from associates	(5,496)	(2,512)	(1,207)
Share of losses of associates	—	—	(6,222)
Finance costs	(372,027)	(388,743)	(247,067)
Loss before taxation	(1,038,124)	(3,691,433)	(4,839,557)
Income tax expense	—	(7,385)	7,385
Loss for the year	(1,038,124)	(3,698,818)	(4,832,172)
Loss for the year attributable to owners of the Company	(1,038,124)	(3,698,818)	(4,832,172)
Loss per share attributable to owners of the Company *(HK cents)*	(15.36)	(54.74)	(73.04)

Assets and liabilities

	As at 31 March		
	2014	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	8,056,158	8,336,858	11,543,781
Less: Total liabilities	(4,428,111)	(3,690,756)	(3,198,467)
Net assets	3,628,047	4,646,102	8,345,314
Equity attributable to owners of the Company	3,628,047	4,646,102	8,345,257
Non-controlling interests	—	—	57
Total equity	3,628,047	4,646,102	8,345,314

Notes:

1. The Company's auditor has qualified its report on the consolidated financial statements of the Group for the year ended 31 March 2014. The auditor's report in respect of the consolidated financial statements of the Group for the year ended 31 March 2014 is set out on pages I-3 to I-5 of this circular. The reports of the auditors in respect of the consolidated financial statements of the Group for each of the two years ended 31 March 2013 were modified.

2. No dividend was declared for the three years ended 31 March 2014.

3. There was no exceptional item affecting the consolidated financial statements of the Group for the three years ended 31 March 2014.

2. REPORT OF THE AUDITOR FOR THE YEAR ENDED 31 MARCH 2014

Set out below is the auditor's report for the year ended 31 March 2014 as extracted from the annual report of the Company for the year ended 31 March 2014. References to page number refer to the page number of the annual report of the Company for the year ended 31 March 2014.

Deloitte.
德勤

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

We were engaged to audit the consolidated financial statements of Mongolia Energy Corporation Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 51 to 109, which comprise the consolidated statement of financial position as at 31 March 2014, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

Basis for Disclaimer of Opinion

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

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

Disclaimer of Opinion

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

Emphasis of Matters

As disclosed in notes 16 and 21 to the consolidated financial statements, the Group owns a number of mining concessions in Western Mongolia for coal mining, four of which the Mineral Resources Authority of Mongolia has notified the Group are within the area designated as land where mineral exploration and mining are prohibited under the Mining Prohibition Law (the "**MPL**") and the Group owns a number of exploration/mining concessions in Western Mongolia, which are also within the designated areas prohibited under the MPL. According to the MPL, the affected licence holders, including the Group, are to be compensated but details of the compensation are not currently available. If any of these mining concessions and/or exploration concession are revoked due to the MPL and the compensation received by the Group is significantly less than the carrying amounts of these concessions, the Group might incur a significant impairment loss on the related assets.

The Directors have concluded that, other than the accumulated impairment losses recognised, no impairment that results from the MPL are required to be recognised in the consolidated financial statements.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 June 2014

3. AUDITED FINANCIAL STATEMENTS

Set out below are the audited consolidated financial statements of the Group for the year ended 31 March 2014, together with the notes thereon, as extracted from the annual report of the Company for the year ended 31 March 2014:

Consolidated Statement of Profit or Loss
For the year ended 31 March 2014

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 March 2014

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

	Notes	2014 HK$'000	2013 HK$'000
Non-current liabilities			
Convertible notes	31	—	2,206,661
Deferred income	33	12,665	—
		12,665	2,206,661
Net assets		3,628,047	4,646,102
Financed by:			
Capital and reserves			
Share capital	35	135,131	135,131
Reserves		3,492,916	4,510,971
Equity attributable to owners of the Company		3,628,047	4,646,102

Consolidated Statement of Changes in Equity

For the year ended 31 March 2014

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

Consolidated Statement of Cash Flows
For the year ended 31 March 2014

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2014

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the principal place of business of the Company is 41st Floor, New World Tower 1, 16–18 Queen's Road Central, Hong Kong.

The Company acts as an investment holding company and its subsidiaries (together with the Company collectively referred to as the "**Group**") are principally engaged in energy and related resources business.

The consolidated financial statements are presented in Hong Kong dollars. The functional currency of the Company is United States dollars ("**US$**") as the US$ better reflects the underlying transactions, events and conditions that are relevant to the Group's ongoing business. For the convenience of the financial statements users, the consolidated financial statements are presented in Hong Kong dollars, as the Company's shares are listed on Stock Exchange.

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

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

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

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

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

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

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

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

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

Impact of the application of HKFRS 10

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

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

Impact of the application of HKFRS 12

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

HKFRS 13 "Fair Value Measurement"

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

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

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

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

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

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

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

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

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

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

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

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

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

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 Disclosures3
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	Impairment loss	Carrying values after impairment
	HK$'000	*HK$'000*	*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	Impairment loss	Carrying values after impairment
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	9,585,438	2,749,126	6,836,312
Intangible assets	1,286,277	373,318	912,959
Development in progress	42,937	12,488	30,449
Total	10,914,652	3,134,932	7,779,720

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

The principal accounting policies are set out below:

Basis of consolidation

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

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

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

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

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

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.

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

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

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

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

Revenue recognition

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

Coal sales

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

Interest income

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

Property, plant and equipment

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

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

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

Mining structures

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

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

Mineral properties

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

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

Construction in progress

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

Investment properties

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

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

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

Intangible assets

Intangible assets acquired separately

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

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

Intangible assets (exclusive right of use of paved road)

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

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

Development in progress

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

Prepaid lease payment

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

Exploration and evaluation assets

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

Impairment of exploration and evaluation assets

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

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

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

Prepayments for exploration and evaluation expenditure

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

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

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Inventories

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

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

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

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

Foreign currencies

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

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

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to the consolidated statement of profit or loss. Exchange differences arising from the translation of functional currency into the presentation currency of the Group are transferred directly from translation reserve to accumulated losses.

Borrowing costs

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

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

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

Government grants

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

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

Retirement benefits costs

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

Taxation

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

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

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

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

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

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

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

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

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Impairment of financial assets

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

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

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

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

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Convertible note

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

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

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

Remeasurement of debt components of convertible note

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

Other financial liabilities

Other financial liabilities including trade payables, other payables, advances from a Director and other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Embedded derivatives

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

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

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

Share options granted to non-employees

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

Other than the uncertainty relating to certain assets subject to MPL (as defined in Note 16) as discussed in details in Note 16 and Note 21, the following are other key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Reserve estimates

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

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

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

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

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

Fair value of derivative financial instruments

As described in Note 31, the Directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative components of the convertible notes, Binomial Valuation Model is used for valuation of the component which involves several key assumptions and estimates including share price volatility, dividend yield and risk free rate. The Directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

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

Estimated impairment of Khushuut Related Assets

As described in Note 3, the Group engaged an Independent Valuer to determine the recoverable amount of the Khushuut Related Assets. For the purposes of impairment testing, the Khushuut Related Assets are treated as a cash generating unit and its recoverable amount has been determined based on a value in use calculation, which requires the Group to estimate the future cash flows expected to arise from the cash generating unit, using discounted cash flow analysis, in order to calculate the present value. Key assumptions used in the calculation include the timing of recommencement of commercial coal production, cost structure, production capacity, annual production estimate, forecasted selling price, estimated period of production and discount rate. During the year ended 31 March 2014, an impairment amounting to HK$253,408,000 (2013: HK$3,134,932,000) was recognised against the Khushuut Related Assets as its recoverable amount is significantly lower than its carrying values. Changes to the assumptions underlying the assessment of the recoverable amount may have a significant effect on the recoverable amount of the Khushuut Related Assets. Where there are favourable or unfavourable changes in facts and circumstances which result in revision of the estimated future cash flows for the purpose of determining the value in use, a reversal of impairment or further impairment loss may arise.

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

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes advances from a Director, convertible notes disclosed in Note 31, other financial liabilities disclosed in Note 32, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

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

7. FINANCIAL INSTRUMENTS

7a. Categories of financial instruments

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

7b. Financial risk management objectives and policies

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

Market risk

(i) Currency risk

The Group mainly operates in Hong Kong, Mainland China and Mongolia and the exposure to foreign currency risk mainly arises from trade receivables, other receivables, cash and cash equivalents, trade payables, other payables, advances from a Director, other financial liabilities and convertible notes denominated in currencies other than functional currency of the relevant group entities.

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

	Liabilities		**Assets**	
	2014	**2013**	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong Dollars ("**HK$**")	4,237,410	3,474,317	3,335	4,253
Renminbi ("**RMB**")	73,113	85,832	14,873	900
Mongolian Tugrik ("**MNT**")	6,966	69,940	10,264	3,518

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

Sensitivity analysis

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

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

The following table details the Group's sensitivity to a 5% (2013: 5%) increase and decrease in US$ against the relevant foreign currencies. 5% (2013: 5%) is the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. A negative/positive number below indicates an increase/decrease in post-tax loss where US$ weakening 5% (2013: 5%) against RMB and MNT respectively. For a 5% (2013: 5%) strengthen of US$ against RMB and MNT respectively, there would be an equal and opposite impact on the loss, vice versa.

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

Note:

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

(ii) Interest rate risk

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

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

The Group's cash flow interest rate risk is mainly due to the fluctuation of the prevailing time deposit rate on bank balances arising from the Group's Hong Kong Dollar denominated bank balances and prime rate in relation to advances from a Director and other financial liabilities.

Sensitivity analysis

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

(iii) Other price risk

(a) Price risk on equity securities

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

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

Sensitivity analysis

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

If the listed share prices of the respective equity instruments had been 5% higher/lower, the loss for the year ended 31 March 2014 would decrease/increase by HK$2,814,000 (2013: HK$1,326,000) as a result of the changes in fair value of held-for-trading investments.

The Group is also exposed to equity price risk in relating to its available-for-sale investment. No sensitivity analysis has been performed as the investment is measured at cost less impairment and the management considers that the risk is insignificant. As at 31 March 2014, the investment has been fully impaired.

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

For the year ended 31 March 2014, the Company is required to estimate the fair value of the derivative component of the convertible notes, including conversion options, with changes in fair value to be recognised in the consolidated statement of profit or loss as long as the convertible notes is outstanding. The fair value will be affected either positively or negatively, amongst others, by the changes in the Company's share price, share price volatility and risk free rate.

Sensitivity analysis

If the listed share price of the Company had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the year would increase by HK$5,058,000 (2013: HK$3,718,000)/decrease by HK$8,298,000 (2013: HK$1,792,000), as a result of changes in fair value of the derivative component of the convertible notes.

If the volatility of listed share prices of the Company had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the year would increase by HK$4,578,000 (2013: HK$5,380,000)/decrease by HK$8,640,000 (2013: HK$715,000), as a result of changes in fair value of the derivative component of the convertible notes.

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

Credit risk

As at 31 March 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

Other than concentration risk on liquid funds which are deposited with banks that have good credit ratings, the Group does not have any other significant credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and compliance with loan covenants. During the year ended 31 March 2014, the Company has not redeemed the principal and repaid the interest of OZ Convertible Note on its maturities, therefore, the Company is in breach of the redemption requirement under the OZ Convertible Note. The Company's default on redemption of the OZ Convertible Note also triggered the Company's early redemption obligation under other existing convertible notes. Accordingly, the Group remeasured the carrying amounts of other existing convertible notes to their redemption amounts. In addition, the liabilities relating to long term convertible notes have been reclassified as current liabilities as at 31 March 2014. The amount of net current liabilities is HK$4,287,652,000 (2013: HK$1,376,544,000).

As at 31 March 2014, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future as Mr. Lo has provided facilities amounting to HK$1,900.0 million with HK$1,119.8 million unutilised to meet the Group's future funding needs and the Company will exercise its endeavour to reach an acceptable debt restructuring with the holders of the convertible notes and other loan provider of the Company during the Moratorium Period.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

2014

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

2013

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

7c. Fair value measurements of financial instruments

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

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

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

Note:

Sensitively analysis is performed in Note 7b.

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

Fair value measurements and valuation processes

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

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

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

Reconciliation of Level 3 fair value measurements of financial liabilities

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

8. REVENUE AND SEGMENT INFORMATION

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

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

Segment revenue and result

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

For the year ended 31 March 2014

	Coal mining	**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 losses on available-for-sale financial asset		(934)
Impairment losses on amounts due from associates		(5,496)
Finance costs		(372,027)
Loss before taxation		(1,038,124)

For the year ended 31 March 2013

	Coal mining	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. Segment loss represents the loss from the coal mining operation without allocation of expenses not directly related to the operating segment, unallocated interest income, finance costs, change in fair value of investment property, held-for-trading investments and derivative component of convertible notes, write off of deposit, loss on remeasurement of debt component of convertible notes, impairment losses on available-for-sale financial asset and amounts due from associates. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

As at 31 March 2014

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

As at 31 March 2013

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

Note:

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

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

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, prepaid lease payment, development in progress, exploration and evaluation asset.

Geographical information

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

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

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

	Non-current assets	
	2014	**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.

Information about major customers

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

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

9. OTHER INCOME

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

10. OTHER GAINS AND LOSSES

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

11. FINANCE COSTS

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

12. LOSS BEFORE TAXATION

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

13. INCOME TAX EXPENSE

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

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

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

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

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

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

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

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

(a) Directors' and chief executive's emoluments

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

Name of Directors	Fees *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

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

Name of Directors	Fees	Salaries	Other benefits	Equity-settled share-based payments	Employer's contribution to MPF Scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors						
Lo Lin Shing, Simon	—	—	1,938	—	—	1,938
Liu Zhuo Wei	—	—	—	—	—	—
Yvette Ong	—	2,700	262	—	15	2,977
Non-executive Director						
To Hin Tsun, Gerald	10	—	—	—	—	10
Independent Non-executive Directors						
Peter Pun	100	—	—	—	—	100
Lau Wai Piu	100	—	—	—	—	100
Tsui Hing Chuen, William	100	—	—	—	—	100
	310	2,700	2,200	—	15	5,225
Chief Executive Officer						
James J. Schaeffer	—	1,000	28	—	—	1,028

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

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

(b) Senior managements' emoluments

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

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

The emoluments fell within the following bands:

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

15. LOSS PER SHARE

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

	2014	**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.

16. PROPERTY, PLANT AND EQUIPMENT

	Mining structures	Mineral properties *(Note)*	Construction in progress	Leasehold improvements	Computer equipment	Furniture, fixtures and office equipment	Plant, machinery and other equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST									
At 1 April 2012	494,544	12,952,851	78,003	23,300	4,861	5,740	18,174	43,462	13,620,935
Exchange adjustments	—	(3,458)	—	2	2	4	—	251	(3,199)
Additions	—	—	62,215	1,894	697	1,845	6,959	51,014	124,624
Written off	—	—	—	(8,405)	(21)	(10)	—	—	(8,436)
Reversal of written off	—	—	—	—	—	—	—	1,339	1,339
Reclassification between categories	1,725	—	(9,986)	—	—	—	9,101	—	840
Disposals	—	—	—	—	(56)	(201)	—	(7,930)	(8,187)
At 31 March 2013	496,269	12,949,393	130,232	16,791	5,483	7,378	34,234	88,136	13,727,916
Exchange adjustments	—	1,655	—	—	—	—	—	—	1,655
Additions	2,884	—	129,493	883	258	141	1,658	2,090	137,407
Written off	—	—	—	(4,719)	(9)	(146)	—	—	(4,874)
Reclassification between categories	4,895	—	(7,615)	—	—	538	2,182	—	—
Disposals	—	—	—	(230)	(22)	(192)	—	(160)	(604)
At 31 March 2014	504,048	12,951,048	252,110	12,725	5,710	7,719	38,074	90,066	13,861,500
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
At 1 April 2012	162,421	3,860,949	23,224	23,149	3,600	3,874	4,511	25,245	4,106,973
Exchange adjustments	—	(5)	—	2	2	3	—	159	161
Charge for the year	4,040	9,308	—	1,072	693	1,159	1,976	16,335	34,583
Written off	—	—	—	(8,405)	(21)	(10)	—	—	(8,436)
Reversal of written off	—	—	—	—	—	—	—	547	547
Disposals	—	—	—	—	(49)	(32)	—	(5,036)	(5,117)
Impairment loss *(Note 3)*	95,088	2,617,223	25,436	—	—	—	4,540	6,839	2,749,126
At 31 March 2013	261,549	6,487,475	48,660	15,818	4,225	4,994	11,027	44,089	6,877,837
Exchange adjustments	—	(10)	—	—	—	—	—	—	(10)
Charge for the year	12,024	—	—	1,009	687	854	3,629	13,508	31,711
Written off	—	—	—	(4,719)	—	—	—	—	(4,719)
Disposals	—	—	—	(191)	(22)	(179)	—	(107)	(499)
Impairment loss *(Note 3)*	7,432	208,430	6,561	—	—	—	732	856	224,011
At 31 March 2014	281,005	6,695,895	55,221	11,917	4,890	5,669	15,388	58,346	7,128,331
CARRYING VALUE									
At 31 March 2014	223,043	6,255,153	196,889	808	820	2,050	22,686	31,720	6,733,169
At 31 March 2013	234,720	6,461,918	81,572	973	1,258	2,384	23,207	44,047	6,850,079

Note:

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

The MPL further states that affected licence holders shall be compensated but details as to how the compensation is determined have not been specified in the MPL and the Mongolian government has not yet released any further guidance on how to interpret the MPL. The Mineral Resources Authority of Mongolia (the "**MRAM**") has provided a list of licences that overlap with the Defined Prohibited Areas under the MPL.

As at 31 March 2014, four mining concessions (licence no. 2913A, 4322A, 11888A, and 15289A) owned by MoEnCo LLC ("**MoEnCo**") have overlapping areas described under the MPL, where mineral exploration and mining are prohibited. The Group's legal advisers have confirmed that their interpretation of the relevant legislation is that, following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licensed area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. There was also no revocation of these licences as at 31 March 2014. The management also considers that even if the licences were revoked due to the MPL, the Mongolian government would pay a reasonable compensation to the Group.

In addition, the Group received a letter dated 6 December 2012 from the Mining Ministry of Mongolia for requesting information of its Khushuut Coal Mine for assessment of placing the Khushuut Coal Mine into the list of deposits of strategic importance in Mongolia ("**Strategic Deposits**"). The Minerals Law states that a mineral deposit is of strategic importance if a deposit may have a potential impact on national security, economic, and/or social development of the country at regional and/or national levels, or that is capable of producing greater than 5% of the gross domestic product of any given year. Under the said Minerals Law, the size of the government participation is determined largely by the level of state funding which had been provided for the exploration and development of any deposit, with the government of Mongolia entitled to participate up to 50% in the event that there has been a state funding of such deposit and up to 34% if there has not. In the event a Strategic Deposit is ruled, the Mongolian government will negotiate with the entity concerned as to the mode or percentage of the government's participation and it will depend on the results of individual negotiations. It may take the form of production or profit sharing or some other arrangement negotiated between the licence holder and the Mongolian government. In June 2013, the Mongolian government has announced that they intend to add the Khushuut Coal Mine into the list of Strategic Deposits for consideration by the Parliament of Mongolia. The Directors consider that the Khushuut Coal Mine does not fit the selection criteria outlined by the Minerals Law and the Group has issued a written objection to the Mongolian government. Subsequent to the year ended 31 March 2014, the Company has been advised by legal advisor that Khushuut Coal Mine has been removed from the proposed list of Strategic Deposits for consideration by the Mongolia Parliament.

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

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

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

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

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

17. PREPAID LEASE PAYMENT

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

18. INVESTMENT PROPERTY

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

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

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

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

19. INTANGIBLE ASSETS

	Software *(Note a)* *HK$'000*	Exclusive right of use of paved road *(Note b)* *HK$'000*	Total *HK$'000*
COST			
At 1 April 2012, 31 March 2013 and 31 March 2014	2,323	1,906,297	1,908,620
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 April 2012	1,846	578,721	580,567
Charge for the year	363	41,299	41,662
Impairment loss recognised in profit or loss *(Note 3)*	—	373,318	373,318
At 31 March 2013	2,209	993,338	995,547
Charge for the year	110	31,755	31,865
Impairment loss recognised in profit or loss *(Note 3)*	—	28,416	28,416
At 31 March 2014	2,319	1,053,509	1,055,828
CARRYING VALUE			
At 31 March 2014	4	852,788	852,792
At 31 March 2013	114	912,959	913,073

Notes:

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

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

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

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

20. DEVELOPMENT IN PROGRESS

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

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

21. EXPLORATION AND EVALUATION ASSETS

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

Notes

(a) The balance of mining and exploration rights as at 31 March 2014 solely represents an exploration concession of around 2,986 hectares in Western Mongolia for ferrous resources. This iron ore exploration concession might be affected by the MPL under the preliminary list. Zvezdametrika LLC ("**Z LLC**"), a wholly-owned subsidiary of the Company which owns the iron ore exploration concession, received a notice from the MRAM during the year ended 31 March 2010 about the potential revocation of its exploration concession under the MPL and Z LLC was requested to submit the estimated compensation for termination of licences with supporting documents. After taking legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRAM's request. The Group's legal advisers have confirmed that their interpretation of the relevant legislation is that, following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licensed area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. According to the best knowledge of the management, there was no revocation of its licences as at 31 March 2014. The management also considered that even if the licences were revoked due to the MPL, the Mongolian government would pay a reasonable compensation to the Group. Hence, the management concluded that there is no impairment on the corresponding exploration and evaluation assets as at 31 March 2014 amounting to approximately HK$285.7 million. The implementation of the MPL represents a significant uncertainty to the Group, which might have a significant effect on the consolidated financial statements of the Group. If the Group's iron ore exploration concession were revoked due to the MPL and the Group were paid compensation significantly less than the carrying amount of this concession, the Group would incur a significant impairment loss on the corresponding exploration and evaluation assets.

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

(b) Others represent the geological and geophysical costs, drilling and exploration expenses incurred for concessions other than the iron ore exploration concession set out in (a).

As at 31 March 2014, the Group confirmed with the Ministry of Environment and Green Department of Mongolia that 2 exploration/mining concessions are overlapping with the forest areas or water basin protection zones therefore might potentially be affected by the MPL (2013: 8). However, the management considers this would not have a significant financial impact to the Group.

(c) Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for two successive periods of 3 years each and mining licences for two successive periods of 20 years each. During the year ended 31 March 2014, the Group has written off all costs related to the licences including those mentioned in Note 21 (b) as the management considers that the respective exploration licences are no longer fruitful. As a result, the corresponding evaluation and exploration assets are written off.

22. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

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

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

Name	Place of incorporation	Principal place of operation	Particulars of issued share capital	Interest held 2014	Interest held 2013	Principal activity
Upper Easy Enterprises Limited ("**Upper Easy**")[1]	British Virgin Islands	Hong Kong	5 shares of US$1.00 each	—	20%	Inactive
eGuanxi (Cayman) Limited	Cayman Islands	Hong Kong	6,667,000 shares of US$1.00 each	25%	25%	Inactive
Profit Billion International Private Limited ("**Profit Billion**")[2]	Singapore	Singapore	10 shares of S$1.00 each	20%	20%	Investment holding
Profit Rise International Private Limited ("**Profit Rise**")[3]	Singapore	Singapore	100 shares of S$1.00 each	—	20%	Investment holding

1 Upper Easy was struck off during the year.

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

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

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

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

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

Aggregate information of associates that are not individually material

	2014 *HK$'000*	2013 *HK$'000*
Total assets	929	17,026
Total liabilities	(37,948)	(100,400)
Net liabilities	(37,019)	(83,374)
Group's share of net assets of associates	—	—
Revenue	—	—
Loss for the year	(5,208)	(11,387)
Other comprehensive income for the year	5,811	227
Total comprehensive income for the year	603	(11,160)
The Group's share of loss	—	—
Aggregate carrying amount of the Group's interests in these associates	—	—

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

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

23. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2014 *HK$'000*	2013 *HK$'000*
At beginning of the year	—	—
Addition	934	—
Less: impairment loss	(934)	—
At end of the year	—	—

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

As at 31 March 2014, the Group had no capital commitments in respect of the investment.

24. PREPAYMENTS FOR EXPLORATION AND EVALUATION EXPENDITURE

The amounts represent prepayments for exploration drilling.

25. DEPOSITS FOR PROPERTY, PLANT AND EQUIPMENT

The amounts represented deposits for equipments used for wash plant.

26. TRADE RECEIVABLES

	2014	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.

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

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

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

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

27. INVENTORIES

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

28. HELD-FOR-TRADING INVESTMENTS

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

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

29. CASH AND CASH EQUIVALENTS

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

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

30. TRADE PAYABLES

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

	2014	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

31. CONVERTIBLE NOTES

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

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

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

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

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

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

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

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

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

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

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

HK$466.8 million 3.5% convertible note

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

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

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

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

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

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

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

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

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

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

	Debt component		Derivative component		Total	
	2014	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
Interest payable included in other payable	(145,151)	—	—	—	(145,151)	—
Amortisation of transaction costs	3,233	6,053	—	—	3,233	6,053
Fair value gain on derivative component	—	—	(42,392)	(302,987)	(42,392)	(302,987)
Interest paid	—	(26,822)	—	—	—	(26,822)
Reclassified as other financial liabilities *(Note 32)*	(793,638)	—	—	—	(793,638)	—
Loss on remeasurement of the debt component	219,827	—	—	—	219,827	—
At end of the year	2,400,116	2,851,129	54,419	96,811	2,454,535	2,947,940

Analysed for reporting purposes as:

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

GI Convertible Note

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

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

Note:

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

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

OZ Convertible Note

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

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

Note:

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

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

3% CTF Convertible Note

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

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

Note:

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

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

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

5% GI & CTF Convertible Note

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

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

Note:

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

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

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

32. OTHER FINANCIAL LIABILITIES

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

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

33. DEFERRED INCOME

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

34. DEFERRED TAXATION

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

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

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 March 2014, estimated tax losses of the Group not utilised amounted to HK$584,015,000 (2013: HK$544,591,000). No deferred tax asset has been recognised for these tax losses as it is uncertain as to whether there will be sufficient future taxable profits to utilise these tax losses. Except for tax losses of HK$465,296,000 (2013: HK$437,636,000) expiring within 5 years, the remaining balances have no expiry date.

At the end of the reporting period, the Group has deductible temporary differences of HK$1,379,408,000 (2013: HK$1,315,091,000) due to the impairment loss recognised on Khushuut Related assets and HK$113,367,000 (2013: HK$109,233,000) due to the allowance for inventory. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

35. SHARE CAPITAL

Authorised and issued share capital

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

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

36. SHARE-BASED PAYMENT

Equity-settled share option scheme

Under the share option schemes adopted by the Company on 28 August 2002 ("**2002 Share Option Scheme**") and 30 August 2012 respectively, options were granted to certain Directors, employees and consultants of the Group entitling them to subscribe for shares of the Company. Options may be exercised at any time from the date of grant of the share options. The 2002 Share Option Scheme was expired and terminated on 27 August 2012.

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

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

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

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

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

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

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

The fair values of options granted determined were as follow:

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

Note:

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

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

37. COMMITMENTS

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

(a) Commitments under operating leases

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

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

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

(b) Capital commitments

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

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

38. CONTINGENT LIABILITIES

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

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

39. RELATED PARTY TRANSACTIONS

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

(a) Advances from Mr. Lo

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

Note:

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

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

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

Note:

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

(c) Key management compensation

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

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

Note:

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

40. MAJOR NON-CASH TRANSACTIONS

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

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiaries	Place of incorporation/ establishment	Particulars of issued share capital/registered capital	Effective interest held 2014	2013	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 of HK$1.00 each	100%	100%	Hong Kong	Management services
Virtue Team Investments Limited*	Hong Kong	1 share of HK$1.00	100%	100%	Hong Kong	Management services
Mongolia Energy Corporation Services Limited*	Hong Kong	2 shares of HK$1.00 each	100%	100%	Hong Kong	Provision of secretarial and nominee services
MoEnCo	Mongolia	1,010,000 shares of US$1.00 each	100%	100%	Mongolia	Minerals exploration and mining activities
Z LLC	Mongolia	100,000 shares of US$1.00 each	100%	100%	Mongolia	Holding iron ore exploration licence
烏魯木齊蒙富礦業有限公司	PRC	RMB11,927,724	100%	100%	PRC	Provision of mining and exploration advisory service
新疆蒙科能源科技有限公司	PRC	RMB135,982,967	100%	100%	PRC	Trading of coal and operation of wash plant

* Subsidiaries directly held by the Company

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

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

42. RETIREMENT BENEFITS SCHEME

The MPF Scheme is available to all employees aged 18 to 65 and with at least 59 days of service under employment in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum relevant income for contribution purposes is HK$20,000 per month and revised to HK$25,000 per month starting from 1 June 2012. The employees are entitled to the full benefit of the Group's contributions and accrued returns irrespective of their length of service with the Group but the benefits are required by law to be presented until the retirement age of 65.

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

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

4. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirmed that save as disclosed in the Company's announcements (i) dated 30 May 2014 regarding the removal of the Company's coal mine in Khushuut, Khovd Province, Western Mongolia (the "Khushuut Coal Mine") from the proposed list of strategic deposits by the Mongolian Parliament and the Company's intention to dispose of its iron deposit which a non-cash impairment loss on valuation of the relevant exploration license may be arisen (as disclosed under the paragraph headed "Business of the Group" in the Letter from the Board); (ii) dated 28 April 2014 and 28 July 2014 regarding the appointment of mining contractors to provide coal mining services for the Khushuut Coal Mine; and (iii) dated 19 September 2014 regarding the entering into of the Subscription Agreements, there was no material change in the financial or trading position or outlook of the Group since 31 March 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. INDEBTEDNESS

At the close of business on 31 August 2014, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information contained in this indebtedness statement, the Group had the following indebtedness:

Borrowings

As at 31 August 2014, the Group had outstanding borrowings from Mr. Lo of approximately HK$850.7 million together with accrued interest of approximately HK$79.9 million. Such borrowings are unsecured and bear interest at the prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited plus 3% per annum.

Other financial liabilities

As at 31 August 2014, the Group had the Existing 3.5% GI Convertible Note in the outstanding principal amount of HK$300 million and accrued interest of approximately HK$21.2 million. The Existing 3.5% GI Convertible Note was due on 6 September 2013 and the conversion right attached thereto was expired. The holder of the Existing 3.5% GI Convertible Note granted a moratorium on repayment of the outstanding principal and interest owing under the Existing 3.5% GI Convertible Note to the GI Completion Date. The interest is charged at 3.5% per annum.

As at 31 August 2014, the Group had the Existing SF Convertible Notes in the aggregate outstanding principal amounts of HK$466.8 million and accrued interests of approximately HK$29.5 million. The Existing SF Convertible Notes were due on 12 November 2013 and the conversion rights attached thereto were expired. The holders of the Existing SF Convertible Notes granted a moratorium on repayment of the outstanding principal and interest under the Existing SF Convertible Notes to the SF Completion Date. The interests are charged at 3.5% per annum.

As at 31 August 2014, the Group had the Existing 3% CTF Convertible Note in the outstanding principal amount of HK$2 billion and accrued interest of approximately HK$193.0 million. The Existing 3% CTF Convertible Note was due on 15 June 2014 and the conversion right attached thereto was expired. The holder of the Existing 3% CTF Convertible Note granted a moratorium on repayment of the outstanding principal and interest under the Existing 3% CTF Convertible Note to the CTF Completion Date. The interest is charged at 3% per annum.

Convertible notes

As at 31 August 2014, the Group had the Existing 5% GI Convertible Note in the outstanding principal amount of HK$200 million and accrued interest of approximately HK$16.5 million. The Existing 5% GI Convertible Note will be due on 8 January 2016 and may be converted into ordinary shares of the Company at HK$0.36 per ordinary share at the holder's option at any time between the issue date and the business day immediately given to the maturity date but the GI Subscriber has agreed not to exercise the conversion right thereunder until GI Completion Date. The interest is charged at 5% per annum.

As at 31 August 2014, the Group had the Existing 5% CTF Convertible Note in the outstanding principal amount of HK$200 million and accrued interest of approximately HK$16.5 million. The Existing 5% CTF Convertible Note will be due on 8 January 2016 and may be converted into ordinary shares of the Company at HK$0.36 per ordinary share at the holder's option at any time between the issue date and the business day immediately given to the maturity date but the CTF Subscriber has agreed not to exercise the conversion right thereunder until CTF Completion Date. The interest is charged at 5% per annum.

Contingent liabilities

As at 31 August 2014, the Group had disputed on the scope of services provided by the former sole mining contractor and disagreed on the amount charged and the quality of the 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 had been provided for in the Company's consolidated financial statement.

Saved as disclosed above and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debt securities, term loans and overdrafts, hire purchase commitments, liabilities under acceptances or acceptance credits, other borrowings or indebtedness in the nature of borrowings or any guarantees or other material contingent liabilities as at the close of business on 31 August 2014.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the GI Subscriber and the CTF Subscriber) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular (other than information relating to the GI Subscriber and the CTF Subscriber) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The sole director of the GI Subscriber accepts full responsibility for the accuracy of the information contained in this circular relating to the GI Subscriber and its concert parties and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The sole director of the GI Subscriber, having made all reasonable enquiries, confirms that to the best of his knowledge and belief the information contained in this circular relating to the GI Subscriber and its concert parties is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The directors of the CTF Subscriber jointly and severally accept full responsibility for the accuracy of the information contained in this circular relating to the CTF Subscriber and its concert parties and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of the CTF Subscriber, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular relating to the CTF Subscriber and its concert parties is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

(a) Share Capital

Assuming there is no other change in the authorised and issued share capital of the Company since the Latest Practicable Date, the authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the Capital Reorganisation becoming effective; and (iii) immediately upon full conversion of the 2014 Convertible Notes (based on the maximum respective principal amounts thereof to be issued and the accrued interest thereon) at the initial Conversion Price are as follows:

(i) As at the Latest Practicable Date

Authorised capital:

		HK$
15,000,000,000	Existing Shares of HK$0.02 each	300,000,000.00

Issued and fully paid or credited as fully paid:

6,756,547,828	Existing Shares of HK$0.02 each as at the Latest Practicable Date	135,130,956.56

(ii) Immediately upon the Capital Reorganisation becoming effective

Authorised capital:

		HK$
15,000,000,000	New Shares of HK$0.02 each	300,000,000.00

Issued and fully paid or credited as fully paid:

1,689,136,957	New Shares of HK$0.02 each	33,782,739.14

(iii) Immediately upon full conversion of the 2014 Convertible Notes (based on the maximum respective principal amounts thereof to be issued and the accrued interest thereon) at the initial Conversion Price

Authorised capital:

		HK$
15,000,000,000	New Shares of HK$0.02 each	300,000,000.00

Issued and fully paid or credited as fully paid:

1,689,136,957	New Shares of HK$0.02 each	33,782,739.14
678,608,707	2014 GI Conversion Shares to be allotted and issued upon full conversion of the 2014 GI Convertible Note	13,572,174.14
3,033,630,136	2014 CTF Conversion Shares to be allotted and issued upon full conversion of the 2014 CTF Convertible Note	60,672,602.72
625,408,090	2014 SF Conversion Shares to be allotted and issued upon full conversion of the 2014 SF Convertible Notes	12,508,161.80
6,026,783,890	New Shares of HK$0.02 each	120,535,677.80

6,756,547,828 Existing Shares have been issued since 31 March 2014 (being the end of last financial year of the Company) up to the Latest Practicable Date. All the Existing Shares currently in issue rank *pari passu* in all respects with each other, including in particular, as to dividends, voting rights and return of capital.

The Conversion Shares to be issued upon exercise of the Conversion Rights will rank *pari passu* in all respects among themselves and with all Shares in issue as at the date of allotment and issue of the Conversion Shares, including in particular, as to voting rights, return on capital and the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Conversion Shares. The Conversion Shares will be listed and traded on the Stock Exchange.

(b) Share Options

Details of the outstanding Share Options as at the Latest Practicable Date were as follows:

	Exercise price per Share HK$	Date of grant	Exercisable period	Number of underlying Shares subject to outstanding Share Options interested
Directors				
Mr. Lo	4.110	9 April 2010	9 April 2010 to 8 April 2015	6,000,000
	0.810	29 February 2012	29 February 2012 to 28 February 2017	6,000,000
	0.320	8 April 2013	8 April 2013 to 7 April 2018	15,000,000
Ms. Yvette Ong	4.110	9 April 2010	9 April 2010 to 8 April 2015	500,000
	0.320	8 April 2013	8 April 2013 to 7 April 2018	5,000,000
Mr. To Hin Tsun, Gerald	4.110	9 April 2010	9 April 2010 to 8 April 2015	500,000
	0.810	29 February 2012	29 February 2012 to 28 February 2017	500,000
	0.320	8 April 2013	8 April 2013 to 7 April 2018	500,000
Mr. Peter Pun	4.110	9 April 2010	9 April 2010 to 8 April 2015	500,000
	0.810	29 February 2012	29 February 2012 to 28 February 2017	500,000
	0.320	8 April 2013	8 April 2013 to 7 April 2018	500,000
Mr. Tsui Hing Chuen, William	4.110	9 April 2010	9 April 2010 to 8 April 2015	500,000
	0.810	29 February 2012	29 February 2012 to 28 February 2017	500,000
	0.320	8 April 2013	8 April 2013 to 7 April 2018	500,000
Mr. Lau Wai Piu	4.110	9 April 2010	9 April 2010 to 8 April 2015	500,000
	0.810	29 February 2012	29 February 2012 to 28 February 2017	500,000
	0.320	8 April 2013	8 April 2013 to 7 April 2018	500,000

	Exercise price per Share HK$	Date of grant	Exercisable period	Number of underlying Shares subject to outstanding Share Options interested
Employees in aggregate	4.110	9 April 2010	9 April 2010 to 8 April 2015	2,300,000
	0.810	29 February 2012	29 February 2012 to 28 February 2017	22,500,000
(including director of certain subsidiaries)	0.320	8 April 2013	8 April 2013 to 7 April 2018	23,500,000

(c) Convertible Notes

As at the Latest Practicable Date, the Company had the Existing 5% GI Convertible Note and the Existing 5% CTF Convertible Note, both of which, subject to respective completion of the 2014 GI Subscription and the 2014 CTF Subscription having taken place, will be fully redeemed by the Company on the GI Completion Date and the CTF Completion Date.

Save as disclosed above, the Company had no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

3. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	**Closing price per share** *HK$*
31 March 2014	0.215
30 April 2014	0.163
30 May 2014	0.161
30 June 2014	0.215
31 July 2014	0.223
29 August 2014	0.225
3 September 2014 (Last Trading Day)	0.227
30 September 2014	0.169
Latest Practicable Date	0.168

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the Relevant Period were HK$0.260 per Share on 20 August 2014 and HK$0.151 per Share on 20 May 2014 respectively.

4. DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares and the underlying Shares

Name of Directors	Capacity	Number of issued Shares interested or deemed to be interested	Number of underlying Shares interested or deemed to be interested	Total	Approximate percentage of the existing issued share capital of the Company
Mr. Lo	Beneficial owner	4,960,000 *(Note 1)*	27,000,000 *(Note 1)*	4,509,778,686	66.75%
	Interest of a controlled corporation	1,206,078,301 *(Note 1)*	3,269,990,385 *(Note 2)*		
	Interest of spouse	1,750,000 *(Note 1)*	—		
Ms. Yvette Ong	Beneficial owner	1,090,000	5,500,000 *(Note 3)*	6,590,000	0.10%
Mr. To Hin Tsun, Gerald	Beneficial owner	5,400,000	1,500,000 *(Note 3)*	6,900,000	0.10%
Mr. Tsui Hing Chuen, William	Beneficial owner	500,000	1,500,000 *(Note 3)*	2,000,000	0.03%
Mr. Peter Pun	Beneficial owner	—	1,500,000 *(Note 3)*	1,500,000	0.02%
Mr. Lau Wai Piu	Beneficial owner	201,200	1,500,000 *(Note 3)*	1,701,200	0.03%

Notes:

1. 4,960,000 Shares represent interest of Mr. Lo on an individual basis, while 1,206,078,301 Shares represent interest of the GI Subscriber. The balancing of 1,750,000 Shares represent interest of Ms. Ku Ming Mei, Rouisa ("Mrs. Lo"), the spouse of Mr. Lo. Accordingly, Mr. Lo is deemed to be interested in the Shares in which the GI Subscriber and Mrs. Lo are interested by virtue of the SFO. 27,000,000 underlying Shares represent the new Shares to be issued to Mr. Lo upon the exercise of the Share Options which were granted to Mr. Lo on 9 April 2010, 29 February 2012 and 8 April 2013 pursuant to the Share Option Schemes.

2. The 555,555,555 underlying shares represent the new Shares to be issued by the Company to GI Subscriber upon full conversion at the initial conversion price of HK$0.36 under the Existing 5% GI Convertible Note. The 2,714,434,830 underlying Shares represent the new Shares (being Existing Shares not taking into account the Capital Reorganisation) to be issued by the Company to the GI Subscriber upon full conversion of the principal amount of the 2014 GI Convertible Note of HK$542,886,966 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing 3.5% GI Convertible Note and the Existing 5% GI Convertible Note calculated up to the Long Stop Date) and the accrued interest thereon of HK$81,433,045 (calculated from the date of issue of the 2014 GI Convertible Note until its maturity) at the initial Conversion Price of HK$0.230 per Existing Share pursuant to the 2014 GI Subscription Agreement. Details of the 2014 GI Subscription Agreement and the 2014 GI Convertible Note are set out in the section headed "Letter from the Board" in this circular.

   The GI Subscriber is wholly owned by Mr. Lo. Accordingly, Mr. Lo is deemed to be interested in the underlying Shares in which the GI Subscriber is interested by virtue of the SFO.

3. These underlying Shares represent the new Shares to be issued to the respective Directors upon the exercise of the Share Options which were granted to the respective Directors on 9 April 2010, 29 February 2012 and 8 April 2013 pursuant to the Share Option Schemes.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company were interested or were deemed to have interests or short positions 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 (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed below, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	**Name of company which had such discloseable interest or short position**	**Position within such company**
Mr. Lo	The GI Subscriber	Director

5. OTHER DISCLOSURES

(a) As at the Latest Practicable Date, save as disclosed in the sections headed "Shareholding structure of the Company" in the "Letter from the Board" of this circular, "Share capital, Share Options and convertible notes" and "Disclosure of interests" above in this appendix and paragraph 5(b) below, none of the Directors, the directors of the GI Subscriber and the CTF Subscriber and members of the Concert Group owned or controlled or were interested in any other Shares, convertible securities, warrants, options or derivatives of the Company.

(b) On 1 September 2014, 5,000,000 Share Options granted to Ms. Yvette Ong pursuant to the Share Option Schemes and carrying right to subscribe for an aggregate of 5,000,000 Shares at HK$0.810 per Share during the period from 1 September 2011 to 31 August 2014 were lapsed. Save as aforesaid and save and except for the entering into of the 2014 GI Subscription Agreement and the 2014 CTF Subscription Agreement by the GI Subscriber and the CTF Subscriber, none of the Directors and members of the Concert Group had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(c) Save that the GI Subscriber is wholly and beneficially owned by Mr. Lo, none of the Company and the Directors were interested in or owned or controlled any shares, convertible securities, warrants, options or derivatives of the GI Subscriber and the CTF Subscriber as at the Latest Practicable Date nor had any of them dealt for value in any shares, convertible securities, warrants, options or derivatives of the GI Subscriber and the CTF Subscriber during the Relevant Period.

(d) None of the subsidiaries of the Company, or pension fund of the Company or of a subsidiary of the Company, or the advisers to the Company as specified in class (2) of the definition of associate in the Takeovers Code (excluding exempt principal traders) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date nor had any of them dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the period beginning the date of the Announcement and ending on the Latest Practicable Date.

(e) No fund managers (other than exempt fund managers) connected with the Company managed on a discretionary basis any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date nor had any of them dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company which were managed on a discretionary basis during the period beginning the date of the Announcement and ending on the Latest Practicable Date.

(f) As at the Latest Practicable Date, none of the Independent Shareholders had irrevocably committed themselves to vote for or against the Subscriptions and/or the Whitewash Waiver.

(g) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) existed between any of the members of the Concert Group and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscriptions and/or the Whitewash Waiver.

(h) None of the members of the Concert Group had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(i) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code or any member of the Concert Group.

(j) As at the Latest Practicable Date, neither the Company nor the Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company.

(k) It is the intention of the GI Subscriber and the CTF Subscriber to continue the existing business of the Group and the employment of the employees of the Group. The GI Subscriber and the CTF Subscriber have no intention to redeploy the fixed assets of the Group or to introduce major changes to the business of the Group.

(l) As at the Latest Practicable Date, Ms. Yvette Ong, Mr. To Hin Tsun, Gerald, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu, the Directors, intended to vote for the resolutions in relation to the Subscriptions and the Whitewash Waiver at the SGM in respect of their own beneficial shareholdings. Mr. Lo and his spouse and the GI Subscriber will abstain from voting on the resolutions in relation to the Subscriptions and the Whitewash Waiver at the SGM. Mr. Peter Pun does not have any Shares.

(m) As at the Latest Practicable Date, there was no agreement, arrangement or understanding pursuant to which the 2014 GI Convertible Note to be subscribed by the GI Subscriber pursuant to the 2014 GI Subscription Agreement or the 2014 GI Conversion Shares falling to be issued on conversion of the 2014 GI Convertible Note or the 2014 CTF Convertible Note to be subscribed by the CTF Subscriber under the 2014 CTF Subscription Agreement or the 2014 CTF Conversion Shares falling to be issued on conversion of the 2014 CTF Convertible Note would be transferred, charged or pledged to any other persons.

6. LITIGATION

As at the Latest Practicable Date, apart from the dispute with the former sole mining contractor of the Khushunt Coal Mine, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and so far as the

Directors were aware, no litigation, arbitration or claim of material importance was pending or threatened by or against any member of the Group or to which the Company or any of its subsidiaries was, or might become, a party.

The former sole mining contractor issued two writ of summons on 14 February 2013 and 30 May 2013 claiming for a total sum of approximately HK$93.7 million of which approximately HK$50.0 million had been provided for in the consolidated financial statements of the Company as at 31 March 2014. The Directors considered that the payment of the remaining balance is not probable. During the year ended 31 March 2014, the former sole mining contractor had proposed a mediation proceeding with the Company. Up to the Latest Practicable Date, there was no progress on the proposed mediation proceedings.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, (i) none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (a) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Announcement; (b) are continuous contracts with a notice period of 12 months or more; or (c) are fixed term contracts with more than 12 months to run irrespective of the notice period; and (ii) none of the Directors had any existing or proposed service contracts with any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

8. ARRANGEMENTS AFFECTING DIRECTORS AND DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

(a) No benefit has been or will be given to any Director as compensation for loss of office or otherwise in connection with the 2014 GI Subscription and the 2014 CTF Subscription and/or the Whitewash Waiver.

(b) As at the Latest Practicable Date, save and except for the 2014 GI Subscription Agreement and the 2014 CTF Subscription Agreement which were conditional upon the Whitewash Waiver being granted, there was no other agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the 2014 GI Subscription and the 2014 CTF Subscription and/or the Whitewash Waiver or otherwise connected with the 2014 GI Subscription and the 2014 CTF Subscription and/or the Whitewash Waiver.

(c) As at the Latest Practicable Date, there was no material contract entered into by the GI Subscriber and the CTF Subscriber in which any Director (excluding Mr. Lo) had a material personal interest.

(d) As at the Latest Practicable Date, save as disclosed below, none of the Directors had any direct or indirect interest in any assets which have been, since 31 March 2014 (the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group:

A subsidiary of Vision Values Holdings Limited ("**VVH**") has leased the following properties to a subsidiary of the Company:

(i) three car parks for the periods (a) between 9 October 2012 and 8 October 2014 at a monthly rental of HK$1,000; and (b) between 9 October 2014 and 8 October 2016 at a monthly rental of HK$1,200;

(ii) a warehouse for the periods (a) between 1 October 2012 and 30 September 2014 at a monthly rental of HK$12,000; and (b) between 1 October 2014 and 30 September 2016 at a monthly rental of HK$17,000; and

(iii) a warehouse for the periods (a) between 12 November 2012 and 11 November 2014 at a monthly rental of HK$12,000; and (b) between 12 November 2014 and 11 November 2016 at a monthly rental of HK$17,000.

Mr. Lo is an executive director of VVH and has a beneficial interest of approximately 32.79% in VVH.

(e) Save for the 2014 GI Subscription Agreement, the subscription agreements and deed poll and moratorium letters for the Existing 3.5% GI Convertible Note and the Existing 5% GI Convertible Note and a standby revolving facility provided by Mr. Lo to the Company with a facility amount of HK$1,900 million carrying interest at 3% above prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited (of which approximately HK$868.2 million had been drawn down together with accrued interest of approximately HK$84.6 million as at the Latest Practicable Date), no contract or arrangement in which any of the Directors is materially interested and which is significant in relation to the business of the Group subsisted at the Latest Practicable Date.

9. COMPETING INTEREST

As at the Latest Practicable Date, none of the directors of the Group or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses where the directors of the Group were appointed as directors to represent the interests of the Company and/or the Group.

10. EXPERT AND CONSENT

The following is the qualification of the expert who has given advice or opinion contained in this circular:

Name	Qualifications
Somerley	a corporation licensed by the SFC to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Somerley did not have any shareholding in any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. As at the Latest Practicable Date, Somerley did not have any direct or indirect interest in any assets which have been, since 31 March 2014 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

11. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, had been entered into by the Group during the period commencing two years immediately preceding the date of the Announcement up to and including the Latest Practicable Date which are or may be material:

(a) the Subscription Agreements;

(b) the letters dated 6 September 2013, 13 November 2013, 13 May 2014 and 12 August 2014 were given by the GI Subscriber to the Company for a moratorium on repayment of principals and interests due under the Existing 3.5% GI Convertible Note;

(c) the letters dated 16 June 2014 and 12 August 2014 were given by the CTF Subscriber to the Company for a moratorium on repayment of principals and interests due under the Existing 3% CTF Convertible Note;

(d) the moratorium agreement dated 13 November 2013 and letters dated 12 May 2014, 12 August 2014 and 12 September 2014 entered into between the Company and the SF Subscribers for a moratorium on repayment of principals and interests due under the Existing SF Convertible Notes; and

(e) the subscription agreement dated 28 November 2012 and entered into between the Company, the GI Subscriber and the CTF Subscriber for the subscription of the Existing 5% GI Convertible Note by the GI Subscriber and the subscription of the Existing 5% CTF Convertible Note by the CTF Subscriber.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the head office and principal place of business of the Company in Hong Kong at 41st Floor, New World Tower 1, 16–18 Queen's Road Central, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the Company's website (www.mongolia-energy.com) from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the memorandum and articles of association of the GI Subscriber and the CTF Subscriber;

(c) the annual reports of the Company for the two years ended 31 March 2013 and 2014;

(d) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(e) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(f) the letter of advice from Somerley, the text of which is set out in the section headed "Letter from Somerley" in this circular;

(g) the written consent referred to in the paragraph headed "Expert and consent" in this appendix; and

(h) the material contracts referred to in the paragraph headed "Material contracts" in this appendix.

13. MISCELLANEOUS

(a) The secretary of the Company is Mr. Tang Chi Kei, CPA. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

(b) The principal place of business of the Company in Hong Kong is at 41st Floor, New World Tower 1, 16–18 Queen's Road Central, Hong Kong.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The principal members of the Concert Group are the GI Subscriber, the CTF Subscriber, Dragon Noble Group Limited, Mr. Lo and his spouse, Dato' Dr. Cheng Yu Tung, Dr. Cheng Kar Shun, Henry and his spouse. The registered office of the GI Subscriber is Tropic Isle Building, P.O. Box 438, Road Town, Tortola, British Virgin Islands and its correspondence address is 41st Floor, New World Tower 1, 16–18 Queen's Road Central, Hong Kong. The sole director of the GI Subscriber is Mr. Lo. The registered office and correspondence address of the CTF Subscriber is 31st Floor, New World Tower, 16–18 Queen's Road Central, Hong Kong. The directors of CTF Subscriber are Dato' Dr. Cheng Yu Tung, Dr. Cheng Kar Shun, Henry, Mr. Cheng Yu Wai and Mr. Cheng Kam Biu, Wilson. The registered office of Dragon Noble Group Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and its correspondence address is 32nd Floor, New World Tower, 16–18 Queen's Road Central, Hong Kong. The directors of Dragon Noble Group Limited are Dr. Cheng Kar Shun, Henry and Mr. Cheng Chi Kong.

(e) The registered office of Halcyon Capital Limited is 11th Floor, 8 Wyndham Street, Central, Hong Kong.

(f) The registered office of Somerley is 20th Floor, China Building, 29 Queen's Road Central, Hong Kong.

(g) The English text of this circular and accompanying form of proxy shall prevail over their respective Chinese text in case of inconsistency.

MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of Mongolia Energy Corporation Limited (the "**Company**") will be held at Unit A, 29/F Admiralty Centre I, 18 Harcourt Road, Hong Kong on Wednesday, 12 November 2014 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions of the Company:

SPECIAL RESOLUTION

1. "**THAT**:

(a) conditional upon (i) The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the New Shares (as defined below) arising from the Capital Reorganisation (as defined below); and (ii) compliance by the Company with the requirements of section 46(2) of the Companies Act 1981 of Bermuda, with effect from the first business day immediately following the date on which this resolution is passed:-

(1) every four (4) issued shares of HK$0.02 each in the share capital of the Company be consolidated (the "**Share Consolidation**") into one (1) share of HK$0.08 (the "**Consolidated Share(s)**");

(2) the total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation will be rounded down to a whole number by cancelling any fraction in the issued share capital of the Company arising from the Share Consolidation;

(3) the par value of each then issued Consolidated Share be reduced from HK$0.08 to HK$0.02 (the "**New Share(s)**") by cancelling the paid-up capital thereon to the extent of HK$0.06 thereon (together with the reduction referred to in sub-paragraph (2) above, the "**Capital Reduction**");

(4) the entire amount standing to the credit of the share premium account of the Company be cancelled (the "**Share Premium Reduction**");

(5) the credit arising from the Capital Reduction and the Share Premium Reduction be transferred to the contributed surplus account of the Company (the "**Contributed Surplus Account**") (such transfer together with the Share Consolidation, the Capital Reduction and the Share

Premium Reduction, the "**Capital Reorganisation**"), and the entire amount standing to the credit of the Contributed Surplus Account be applied to set off against an equivalent amount of the accumulated losses of the Company and the directors of the Company (the "**Directors**") be and are hereby authorised to apply the balance in the Contributed Surplus Account (if any) in any manner permitted by the laws of Bermuda, including, without limitation, paying dividend or making any other distribution out of the Contributed Surplus Account from time to time without further authorisation from the shareholders of the Company and all such actions in relation thereto be approved, ratified and confirmed; and

(6) any one Director or, if the affixation of the common seal of the Company is required, any one Director and the company secretary of the Company or any two Directors or such other person (including a Director) or persons as the board of the Directors may appoint be and is/are hereby authorised for and on behalf of the Company to approve, sign, seal, execute, perfect and deliver all documents and to do all such acts, deeds and things which he/she/they may in his/her/their absolute discretion consider desirable, necessary or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Capital Reorganisation."

ORDINARY RESOLUTIONS

2. "**THAT**

(a) the entering into of the three subscription agreements all dated 19 September 2014 between the Company as issuer and (i) Golden Infinity Co., Ltd.; (ii) Chow Tai Fook Nominee Limited; and (iii) Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited, (collectively the "**Subscribers**") as subscribers respectively (the "**Subscription Agreements**", copies of which have been produced to the Meeting and marked "A", "B" and "C" respectively and signed by the Chairman of the Meeting for the purpose of identification) in relation to the issue by the Company to the Subscribers of the 3% convertible notes for a term of five (5) years from the date of issue (collectively the "**Notes**") in the respective principal amounts equivalent to the respective aggregate outstanding amounts (including the principal amounts and any outstanding accrued interest up to date of completion of the Subscription Agreements) owing by the Company to the Subscribers under the existing convertible notes issued by the Company to the Subscribers, which the holders of the Notes shall be entitled to convert all or any part thereof (comprising the outstanding principal amounts and any accrued but unpaid interest thereon) into ordinary shares of the Company (the "**Conversion Shares**") at an initial conversion price of HK$0.23 per Conversion Share (or approximately HK$0.920 per Conversion Share after the Capital Reorganisation (as defined in the special resolution numbered 1 set out in the notice convening the Meeting) takes effect) (subject to adjustments as provided in the Notes), and the performance of the respective transactions contemplated under the Subscription Agreements by the Company be and are hereby ratified, confirmed and approved (as appropriate);

(b) the creation and issue of the Notes by the Company upon and subject to the respective terms of the Subscription Agreements be and are hereby approved;

(c) subject to and conditional upon the granting by The Stock Exchange of Hong Kong Limited of the listing of, and permission to deal in, the Conversion Shares, the allotment and issue of the Conversion Shares which may fall to be issued upon exercise of the conversion rights attaching to the Notes be and is hereby approved and the directors of the Company (the "**Directors**") be and are hereby authorised to exercise all the powers of the Company to allot and issue the Conversion Shares pursuant to and in accordance with the respective terms of the Notes; and

(d) any one Director or, if the affixation of the common seal of the Company is required, any one Director and the company secretary of the Company or any two Directors or such other person or persons as the board of the Directors may appoint be and is/are hereby authorised for and on behalf of the Company to approve, sign, seal, execute, perfect and deliver all documents and to do all such acts, deeds and things which he/she/they may in his/her/their absolute discretion consider desirable, necessary or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Subscription Agreements and the Notes and the respective transactions contemplated thereunder, including without limitation to the issue of the Notes, the allotment and issue of the Conversion Shares and the execution, amendment, supplement, delivery, submission and implementation of any further documents or agreements in connection therewith."

3. "**THAT** subject to and conditional on the passing of the ordinary resolution numbered 2 set out in the notice convening the Meeting (the "**Notice**"), the waiver (the "**Whitewash Waiver**") granted or to be granted by the executive director (the "**Executive**") of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate of the Executive in respect of the obligation of Golden Infinity Co., Ltd. ("**Golden Infinity**") and/or Chow Tai Fook Nominee Limited ("**CTFN**") under The Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**") to make a mandatory general offer for all the issued shares of the Company (the "**Shares**") under Rule 26 of the Takeovers Code and comparable offers under Rule 13 of the Takeovers Code for all the other issued securities of the Company other than those already owned or agreed to be acquired by Golden Infinity and CTFN and their respective parties acting in concert which may, but for the Whitewash Waiver, arise as a result of the allotment and issue of new Shares upon full/partial exercise of the conversion

rights attaching to their Notes (as defined in the ordinary resolution numbered 2 set out in the Notice) be and is hereby approved, and that any one director of the Company be and is hereby authorised to execute all such documents with or without amendments and to do all such acts, deeds and things as he or she considers desirable, necessary or expedient in connection with or to give effect to any matters relating to or in connection with the Whitewash Waiver."

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

Hong Kong, 24 October 2014

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
41st Floor
New World Tower 1
16–18 Queen's Road Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or, if he is a holder of more than one share, more proxies to attend and vote on his behalf. A proxy need not be a member of the Company but he must be present in person at the Meeting to represent the member. If more than one proxy is appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the Meeting is enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com. In order to be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power of attorney or authority, shall be delivered to the offices of the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and delivery of a form of proxy will not preclude a member from attending and voting in person at the Meeting or any adjournment thereof and in such event, the form of proxy shall be deemed to be revoked.

3. In the case of joint holders of a share, if more than one of such joint holders be present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of such joint holding.

4. The resolutions proposed to be approved at the Meeting will be voted by way of poll.

5. For the purpose of ascertaining the members' right to attend and vote at the Meeting, the Register of Members will be closed from Monday, 10 November 2014 to Wednesday, 12 November 2014, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Meeting, all completed transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 7 November 2014.

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