Mongolia Energy Corporation

annual report 2007

MONGOLIA ENERGY CORPORATION

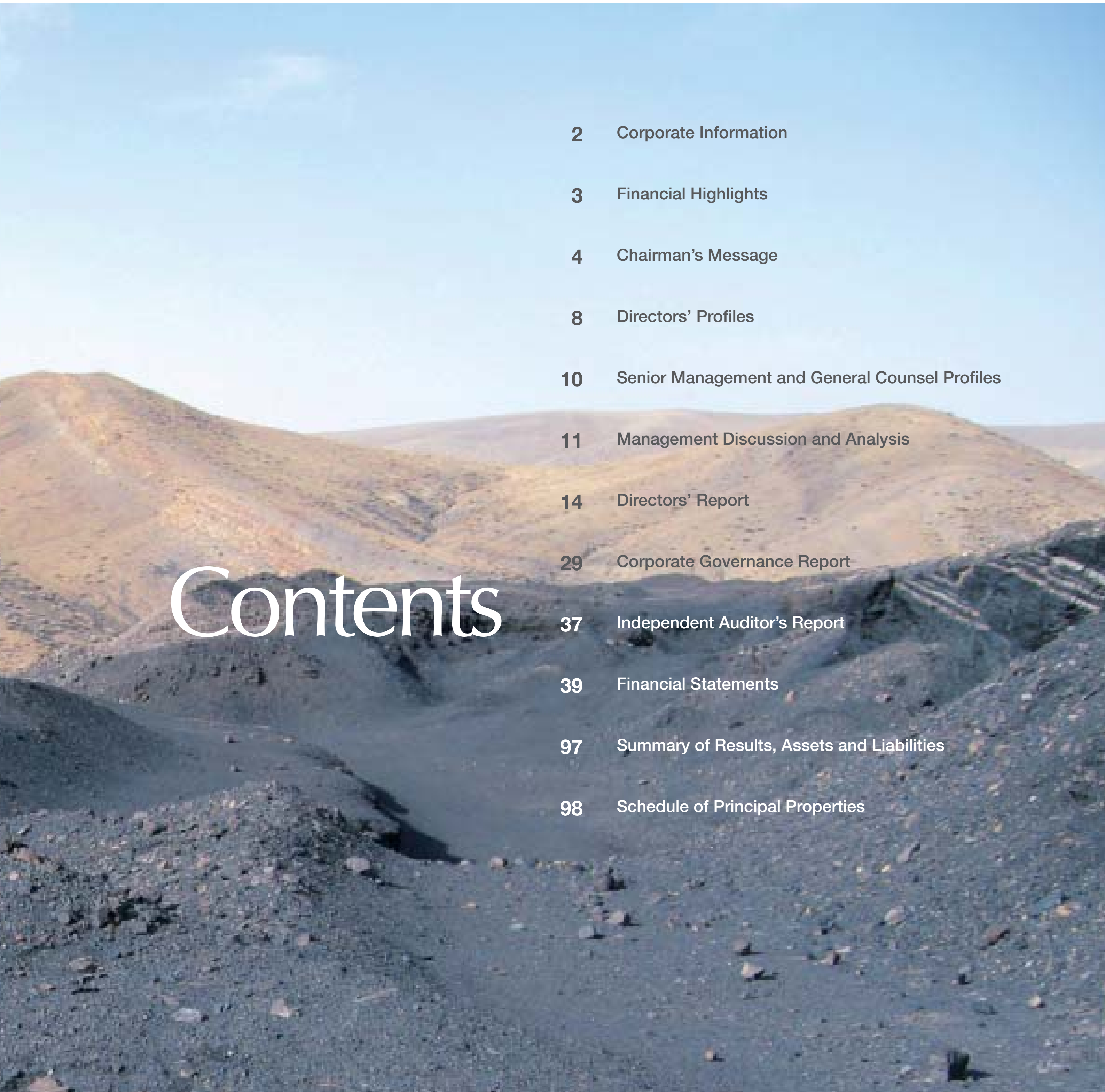
蒙古能源有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 276

VISION

The vision of MEC is to develop into a leading energy company in the energy and related resources sectors with a global brand recognition. MEC looks forward to your support.



Contents

Corporate Information

DIRECTORS

Executive directors

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

Non-executive director

Mr. To Hin Tsun, Gerald

Independent non-executive directors

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

COMPANY SECRETARY

Mr. Tang Chi Kei

QUALIFIED ACCOUNTANT

Mr. Kwok Ying Tung, Daniel

INDEPENDENT AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Citibank, N.A.
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Public Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

BRANCH SHARE REGISTRAR

Standard Registrars Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

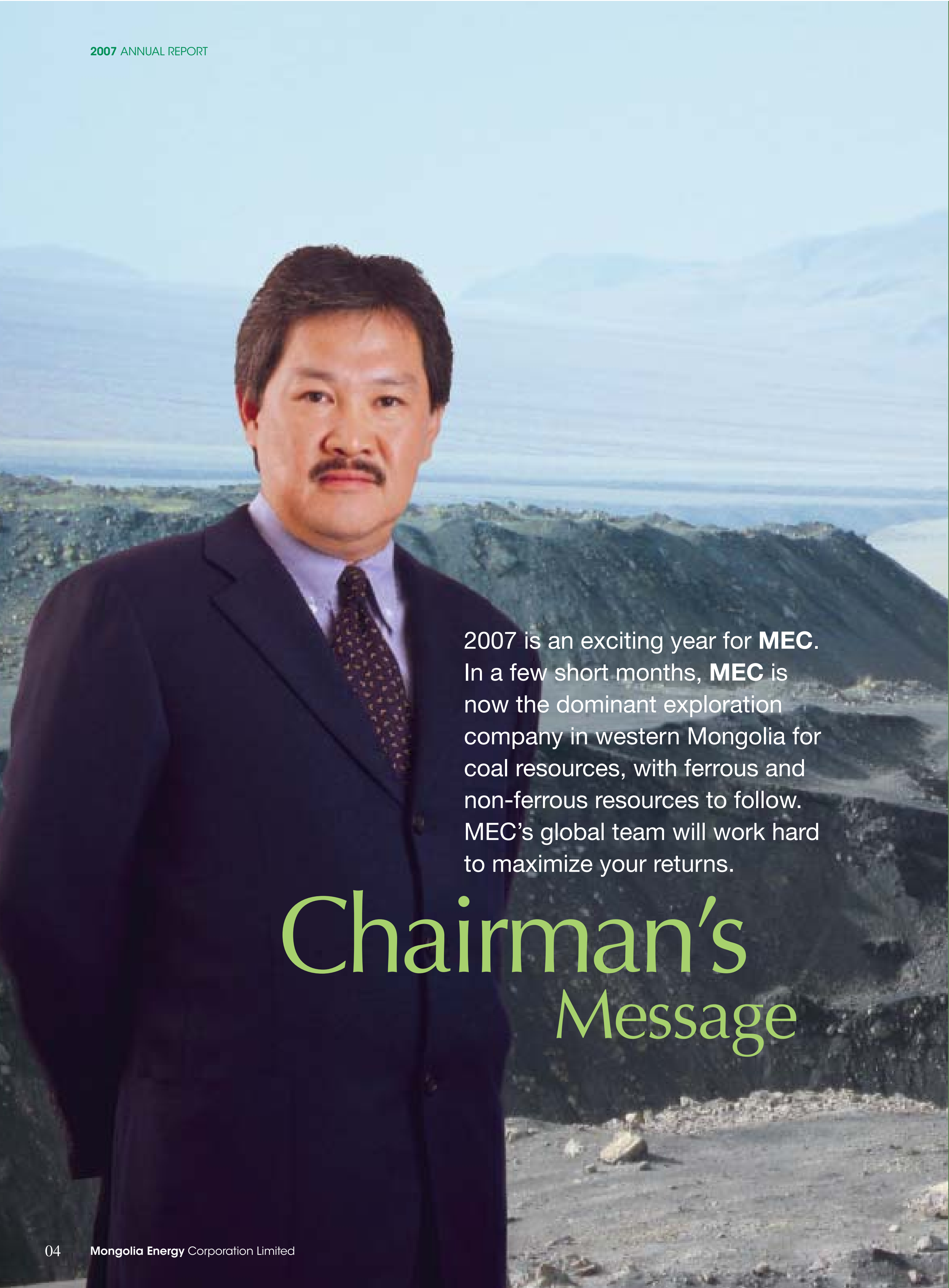
Room 1502-5
New World Tower I
16-18 Queen's Road Central
Hong Kong
Telephone: (852) 2138 8000
Facsimile: (852) 2138 8111

WEBSITE ADDRESS

http://www.mongolia-energy.com

Financial Highlights

	Financial year ended 31 March		
	2007 HK$ million	2006 HK$ million	Change (%)
Turnover	**39.8**	24.1	65.1
Profit/(loss) attributable to shareholders	**11.8**	(1.4)	N/A
Basic earnings/(loss) per share	**HK cents 0.62**	HK cents (0.25)	N/A
Net assets	**641.4**	427.1	50.2
Net assets per share	**HK$0.25**	HK$0.29	(13.8)



2007 is an exciting year for **MEC**. In a few short months, **MEC** is now the dominant exploration company in western Mongolia for coal resources, with ferrous and non-ferrous resources to follow. MEC's global team will work hard to maximize your returns.

Chairman's Message

Chairman's Message

The last six months is best described as a busy time for Mongolia Energy Corporation ("MEC"). It is also a time which we, at MEC, believe that we have delivered significant value to our shareholders. This is mainly evident by our significant increase in market capitalization.

The event that brought about this increase is the entry, by MEC, into the energy business under the acquisition of certain concessions in western Mongolia.

The size of the concessions being acquired total some 66,000 hectares (around two-third the size of the HKSAR) in Khovd province, western Mongolia. The concession areas contain geological rock formations known for coal and other mineral resources. There is an estimate based on the work of previous Soviet geologists that within the concession areas, there are between 3.4 and 4.4 billion tonnes of coal resources.

In fact, before the initial acquisition of concession areas of some 34,000 hectares on January 30, 2007, I visited an open cut area called the "Khushuut coal mine" in Khovd province, western Mongolia. From this first-hand experience, I can honestly say that seeing is believing. There is visual proof of available coal and actual sites of previous mining activities. I was immediately converted into a believer of the viability of an acquisition should it come about.

Later, I learned from John T. Boyd Company ("John T. Boyd"), the world's premier mining consultancy, that in the open cut area of the Khushuut coal mine, which I saw is around 45 hectares in size, there are some 50 million tonnes of coal resources. Further, in the surrounding area of around 180 hectares, there is up to 180 million tonnes of coal resources.

Chairman's Message

As this was an initial acquisition for MEC, I decided that the transaction should close only when we demonstrate 300 million tonnes of coal. Eventually, MEC entered into a further acquisition of some 32,000 hectares in the vicinity for coal, ferrous and non-ferrous resources. The commercial terms, under both acquisitions, are in my view attractive with regard to the global scarcity of resources and China being a ready market place for energy, coal and coal products.

Further, it was obvious to me that the coal resources which MEC was acquiring could potentially make MEC a significant player in the energy business and eventually propel MEC to a global energy player.

However, before we can realize this vision, we need to do things one step at a time. MEC started by hiring an energy lawyer, Mr. Mohan Datwani, from an international law firm that worked on the initial acquisition, as General Counsel. This was followed by the hiring of Mr. James Schaeffer, the Executive Director of Asia Pacific for John T. Boyd, as Chief Executive Officer. The agreement of these professionals to join MEC is in itself a testament to the strength of our projects.

In addition, we also hired an international team of industry-recognized external advisors with John T. Boyd as overall technical adviser, Team 129 of the China Coal Geology Bureau as exploration company, and the Sino-coal Engineering Group – Shenyang Design and Research Institute as designer of our initial mining operations. I was delighted when Mr. Ren Xiang, the father of geothermal study in China and adviser to The China Development Bank, joined MEC as consultant.

Chairman's Message

We have also established an office in Mongolia with over 90 staff, including 22 geologists and mining engineers. There are currently several hundred people exploring and dealing with the future of our mining operations.

During the rest of 2007, MEC is scheduled to explore for the coal, ferrous and non-ferrous resources within the concession areas and to close the acquisitions. Also, an initial mining operation is scheduled to be commenced. In the not-too-distant future, we hope to build power plants to supply energy to Xinjiang as "energy-by-wire" will maximize the returns of our shareholders.

I trust you will all agree with MEC's approach. In that respect, I can assure you that all of us at MEC will work hard to maximize your returns.

Simon Lo
Chairman

July 9, 2007

P.S. Please note that the further acquisition of 32,000 hectares of concessions areas referred under the Chairman's message of July 9, 2007 above has closed on July 16, 2007 prior to the printing of this annual report. MEC now owns concession over 32,000 hectares of mine areas for exploration and eventual exploitation of coal, ferrous and non-ferrous resources.

Directors' Profile

Simon Lo Lin Shing

Chairman and Executive Director

Mr. Lo, an entrepreneur, has over 20 years of experience in the financial, securities and futures industries, including many trans-border transactions. Mr. Lo is the chairman of New World Mobile Holdings Limited, deputy chairman of Taifook Securities Group Limited (a reputable Hong Kong securities house), executive director of International Entertainment Corporation, and a non-executive director of Macau Prime Properties Holdings Limited, all of which are listed on the Stock Exchange of Hong Kong. Mr. Lo identifies business opportunities for MEC, including the acquisition of the coal mine in western Mongolia, and provides the direction for MEC as a global energy and resources company.

Yvette Ong

Executive Director

Ms. Ong has over 14 years of managerial experience in the Asia-Pacific region. Prior to joining MEC, Ms. Ong was the Managing Director of AT&T EasyLink Services Asia Pacific Limited. Joining AT&T in 1991, she initially focused on the sales and marketing of data communications services. She was instrumental in setting up certain business areas of AT&T in Hong Kong and was a key member of the Asia-Pacific senior management team responsible for the expansion of AT&T's internet business in the region. Ms. Ong holds an MBA degree in Management Information Systems and Marketing and a Bachelor degree in Finance and Management from the University of San Francisco.

Gerald To Hin Tsun

Non-Executive Director

Mr. To has been a practising solicitor in Hong Kong since 1975. He is also qualified as a solicitor in the UK, as well as an advocate and solicitor in Singapore. He is currently the senior and managing partner of Messrs. T.S. Tong & Co., Solicitors and Notaries. Mr. To is an executive director of International Entertainment Corporation, and a non-executive director of NWS Holdings Limited and Taifook Securities Group Limited, all of which are listed on the Stock Exchange of Hong Kong.

Directors' Profile

Peter Pun *OBE, JP*

Independent Non-Executive Director

Mr. Pun, the chairman and chief executive of the PYPUN group, has over 42 years of international experience in engineering and construction, town and urban planning, and infrastructure and property development. He is a graduate of St. John's University and Tongji University in Shanghai and a postgraduate of Imperial College, London. He has been an authorised architect under the Hong Kong Buildings Ordinance since 1964 and a practising authorised person and registered structural engineer in Hong Kong since 1974. He is a fellow of both the Institution of Civil Engineers in the United Kingdom and the Hong Kong Institution of Engineers.

William Tsui Hing Chuen *JP*

Independent Non-Executive Director

Mr. Tsui is the founding partner of Messrs. Lo, Wong & Tsui, Solicitors & Notaries, which was established in 1980. He has been a solicitor of the High Court of Hong Kong since 1977, a solicitor of the Supreme Court of England & Wales since 1980, and a barrister and solicitor of the Supreme Court of Victoria, Australia since 1983. He has also been an advocate and solicitor in Singapore since 1985 and a notary public appointed by the Archbishop of Canterbury England since 1988. Mr. Tsui was appointed as a Justice of the Peace by the Government of Hong Kong in 1997. He is also an independent non-executive director of Taifook Securities Group Limited and New World Mobile Holdings Limited, both of which are listed on the Stock Exchange of Hong Kong.

Lau Wai Piu

Independent Non-Executive Director

Mr. Lau, the chief financial officer of VOIPWORLD Limited, a private limited company incorporated in Hong Kong, possesses over 20 years of extensive experience in accounting and financial management. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Lau is also an independent non-executive director of Taifook Securities Group Limited and New World Mobile Holdings Limited, both of which are listed on the Stock Exchange of Hong Kong.

Senior Management and General Counsel Profiles

James J. Schaeffer, Jr

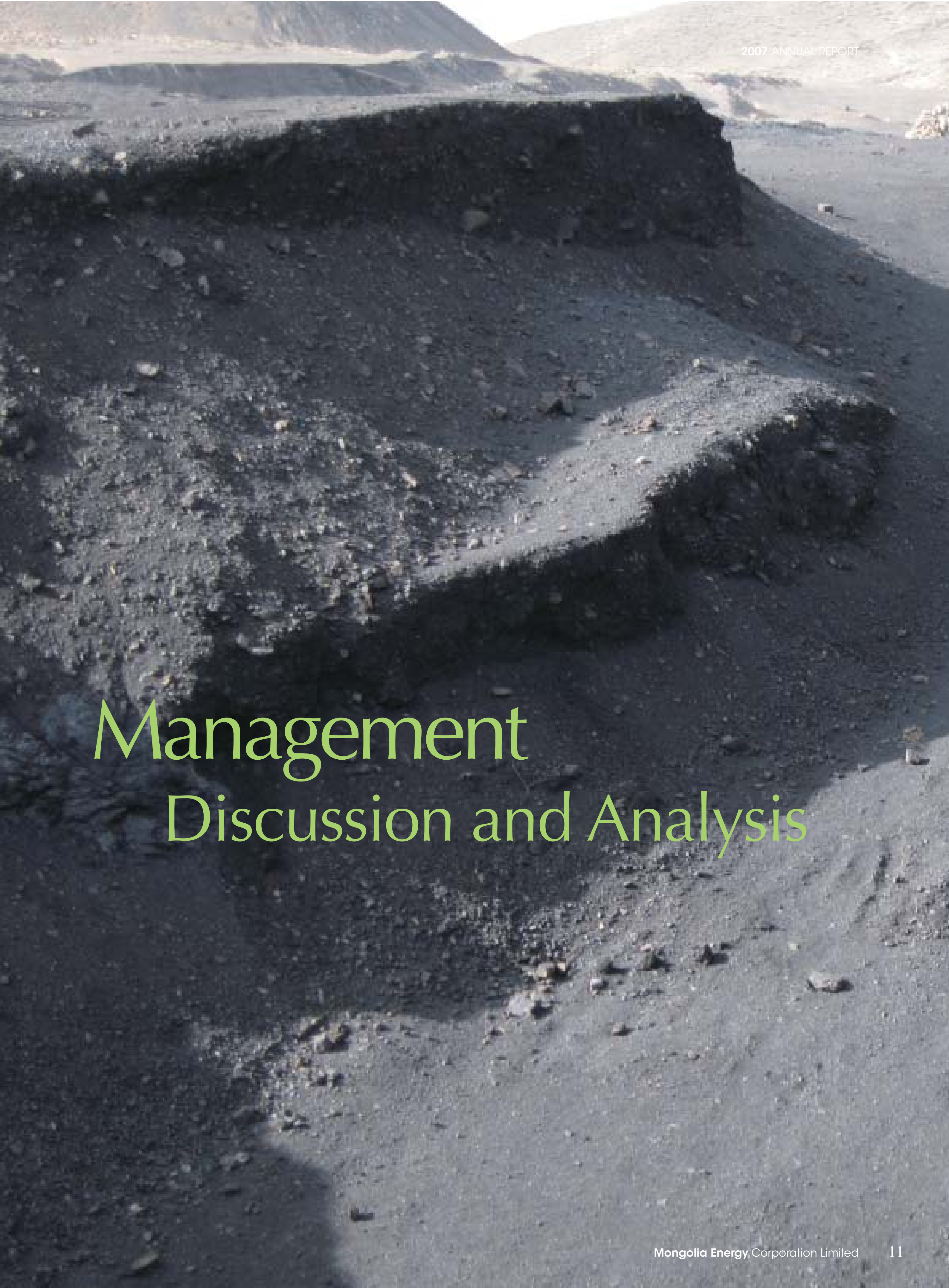
CEO

Prior to joining MEC, **Mr. Schaeffer** was the Executive Director – Asia Pacific of John T. Boyd Company (technical adviser to China Shenhua's IPO in 2005) and is known internationally and throughout the Asia Pacific region to many leading corporates and banking and financial institutions in the energy and resources sectors. In his three decades as a mining consultant, Mr. Schaeffer has conducted numerous technical reviews, coordinated reserve estimations, evaluated fuel supply plans, identified potential coal resources and developed financial regimes and mining regulations for major commercial and government projects. Mr. Schaeffer has been actively engaged in projects throughout the Asia Pacific region, including China, Southeast Asia and Australia. Mr. Schaeffer is also a seminar instructor for different organizations and has published numerous publications and papers on industry-related topics. Mr. Schaeffer is a Registered Professional Engineer in Kentucky, Pennsylvania and West Virginia, He is also a member of the international Society of Mining, Metallurgy, and Exploration. He holds a Master of Science degree in Business Administration, Robert Morris University and a Bachelor of Science degree in Mining Engineering, University of Pittsburgh.

Mohan Datwani

General Counsel

Mr. Datwani, a former partner of Paul, Hastings, Janofsky & Walker, an international law firm with 18 offices and over 1,150 lawyers, specialises in highly structured transactions for leading global financial and corporate institutions, including acquisition and structuring of acquisition of energy and resources projects in a number of jurisdictions (including China and Mongolia). The product areas of these projects included coal, liquefied natural gas, oil, power plants, timber and resources. Formerly named as a leading lawyer by Asia Pacific Legal 500 in asset finance, Mr. Datwani assisted the Company in structuring the acquisition of the coal mine in western Mongolia. Mr. Datwani is admitted as a solicitor in England & Wales and Hong Kong for over 15 years and holds an LLB and an LLM.



Management Discussion and Analysis

Management Discussion and Analysis

Business Review

During the reporting year, the Group was principally engaged in property investments and in the aircraft charter business.

In the property sector, the Group continued to own the basement and ground floor of Bank of America Tower ("BOA Tower") in Central, Hong Kong. During the year, the Group successfully secured a prestigious company to be one of our anchor tenants. Following this lease the occupancy ratio of BOA Tower improved to 96% as at March 31, 2007 (2006: 86%). During the same period, the Group appointed an independent property agency company as the sole sales agent to dispose of its assets at BOA Tower by public tender. However, the Group did not proceed with the disposal as the biddings failed to meet the management's expectation.

In this reporting year, the Group continued to strengthen its private jet services operations. The aircraft charter business built momentum steadily during the year. The Group currently owns a Gulf Stream G200 model private jet for the aircraft charter services. Another brand new Gulf Stream G450 model private jet (50% beneficially owned by the Group) will be delivered on schedule in the third quarter of 2007. With the additional new private jet, the Group will be able to provide more flexible aircraft charter options to potential customers. The joint venture, Asia United Business Aviation Limited ("AUBA"), with inter alia Shenzhen Airlines as joint venture partner, was duly established after March 31, 2007. AUBA obtained an air operation certificate from the Civil Aviation Authority of China and final approval for a business aviation facility at Shenzhen's Baoan International Airport in May 2007. The private jet industry in the PRC is currently under-developed and as a pioneer in the industry, the Group is well positioned to capture this rapidly growing market.

On January 30, 2007, the Company entered into an agreement to acquire a coal mine of over 34,000 hectares in western Mongolia with at least 300 million tonnes of reserves. The acquisition was approved by the shareholders on April 18, 2007 and it signifies the Group's new venture into coal and energy-related businesses. The mining business requires continuous and significant capital investment. The Directors will exercise extreme caution in maintaining sufficient working capital for the Group's requirements over the course of time.

On May 30, 2007, the Company made a public announcement disclosing a subsidiary of the Company had entered into an acquisition agreement to acquire further mine areas in western Mongolia with coal resources estimated between 1 to 2 billion tonnes along with other ferrous and non-ferrous resources subject to exploration for eventual commercial exploitation.

The coal and energy related business will be the focus of the Group's activities in the coming years. Accordingly, the Group divested some non-core investments during the year. On January 26, 2007, the Group disposed of its entire interests in two associated companies holding property development projects in Hangzhou, PRC (the "Disposal") to Mr. Lo Lin Shing, Simon (Chairman and executive director of the Company) at an aggregate consideration of HK$38.2 million. The Disposal was approved by the shareholders on March 5, 2007 and completed in May 2007 with an approximate gain of HK$14.8 million.

Financial Review

1. Result Analysis

A growth of 65% in overall turnover was recorded in 2006/07 when compared to the last corresponding year. Turnover from property investments and aircraft charter increased 20.7% and 256.3% respectively. A full-year effect accounted for more than 2-fold increase in turnover from the aircraft charter business.

Both business segments recorded an operating loss for the year. For the property investments segment, the operating loss resulted from the fair value loss of HK$35 million of the investment properties on an open-market value basis by an independent qualified valuation firm as at the March 31, 2007. By eliminating this factor, this business segment did record an operating profit of HK$18.0 million (2006: HK$14.2 million). For the aircraft charter segment, the financial performance was dragged down by the annual depreciation charge of approximately HK$7.9 million on the G200 aircraft.

Despite the operating loss in our business segments, the Group's investment portfolio in both listed and unlisted investments helped to turnaround this financial year's result. A total dividend income of HK$20.4 million was received and a fair value gain of HK$40.2 million was recorded. Consequently, profit attributable to shareholders of the Company for the year ended March 31, 2007 was HK$11.8 million (2006: loss of HK$1.4 million).

2. Liquidity and financial resources

As at March 31, 2007, the equity holders' fund of the Group amounted to HK$641.3 million (2006: 427.1 million) and the net asset value per share was HK$0.25 (2006: HK$0.29). In February 2006, the Company issued 2.5% convertible notes at a nominal value of HK$200,000,000. These convertible notes have a maturity period of three years from the issue date at their nominal value and can be converted to one ordinary share of the Company of HK$0.02 each for every HK$0.18 convertible note at the holders' option. The convertible notes were fully converted into 1,111,111,102 new ordinary shares during the year which was the key contributor to the sharp increase in equity holders' fund.

The Group's funding was derived from internal resources and corporate financing activities. Total net borrowings of the Group (total borrowings net of bank and cash balances) as at March 31, 2007 amounted to HK$59.1 million (2006: HK$155.8 million). In respect of the secured bank loan of approximately HK$126.8 million as at the March 31, 2007, it was subject to the usual annual review by the bank. Due to this commercial arrangement, the secured bank loan is classified as current liability in the financial statements. However, it does not represent that the total bank loan amount is required to be repaid within one year from March 31, 2007. Furthermore, the Group has been able to repay principal balances plus interests on time and the carrying value of the Group's investment properties pledged to secure the bank loan amounted to HK$350 million as at March 31, 2007 is well in excess of the balance of the secured bank loan. Accordingly, the Directors consider that the Group does not face any immediate pressure to repay a large portion of the secured bank loan.

As at March 31, 2007, the cash and bank balances were HK$67.7 million (2006: HK$171.5 million). Undrawn facilities of the Group as at March 31, 2007 were approximately HK$71.1 million (2006: HK$12.8 million). Liquidity ratio was around 1.8 (2006: 1.29).

3. Gearing

At the March 31, 2007, the gearing ratio of the Group was at a healthy level of 0.15 (2006: 0.40) which was calculated based on the Group's total borrowings to total assets.

4. Financial risk management

Details of the financial risk management adopted by the Group during the year are set out in the note (3) to the financial statements.

5. Pledge of assets

Investment properties with a carrying amount of HK$350 million (2006: HK$385 million) were pledged to a bank as collateral for banking facilities granted to the Group.

6. Contingent liabilities

The Group has no material contingent liabilities as at year ended date.

Directors' Report

The directors present their report together with the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended March 31, 2007.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding and the activities of its principal subsidiaries are set out in note 35 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group for the year ended March 31, 2007 is set out in note 5 to the financial statements.

Results and appropriations

The results of the Group for the year ended March 31, 2007 are set out in the Consolidated Income Statement on page 39.

No interim dividend was declared (2006: Nil) and the directors do not recommend the payment of a final dividend for the year ended March 31, 2007 (2006: Nil).

Share capital and share options

Details of movements in the share capital and the share options of the Company during the year are set out in notes 29(a) and 29(b) to the financial statements.

Reserves

Movements in reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

Property, plant and equipment

Movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

Principal properties

Details of the principal properties held are set out on page 98.

Group financial information

A summary of results, assets and liabilities of the Group for the five years ended March 31, 2007 is set out on page 97.

Major suppliers and customers

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

Purchases

the largest supplier	44%
five largest suppliers in aggregate	85%

Sales

the largest customer	17%
five largest customers in aggregate	38%

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

Directors

The directors of the Company during the year and up to the date of this report are as follows:

Executive directors

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

Non-executive director

Mr. To Hin Tsun, Gerald

Independent non-executive directors

Mr. Peter Pun *OBE, JP*	
Mr. Wei Chi Kuan, Kenny	*(resigned on September 8, 2006)*
Mr. Tsui Hing Chuen, William, *JP*	*(appointed on September 8, 2006)*
Mr. Lau Wai Piu	

Directors' Report

In accordance with Bye-law 86 and 87 of the Bye-laws of the Company, Mr. To Hin Tsun, Gerald and Mr. Tsui Hing Chuen, William will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

Biographical details of the directors and the senior management of the Group are set out on pages 8 to 10.

Corporate governance

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

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 29 to 36.

Directors' interests and short positions

As at March 31, 2007, the interests or short positions of the directors of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

1 Long positions in the shares

Name of director	Capacity	Number of shares interested	Percentage of shareholding
Lo Lin Shing, Simon	Interest of a controlled corporation/Beneficial (Note)	1,166,202,301	44.57%
Yvette Ong	Beneficial	2,090,000	0.07%
To Hin Tsun, Gerald	Beneficial	3,000,000	0.11%
Tsui Hing Chuen, William	Beneficial	500,000	0.01%
Lau Wai Piu	Beneficial	601,200	0.02%

Note: Among the 1,166,202,301 shares, 4,960,000 shares represent interest of Mr. Lo Lin Shing, Simon ("Mr. Lo") on an individual basis; while 1,161,242,301 shares represent interest of Golden Infinity Co., Ltd ("Golden"). Accordingly, Mr. Lo is deemed to be interested in the shares in which Golden is interested by virtue of the SFO.

2 Long positions in the underlying shares

Name of director	Capacity	Number of underlying shares interested	Percentage of shareholding
Lo Lin Shing, Simon	Personal	1,157	0.00004%
Yvette Ong	Personal	41	0.000001%
To Hin Tsun, Gerald	Personal	744	0.00002%
Peter Pun	Personal	1,116	0.00004%
Lau Wai Piu	Personal	1,116	0.00004%

Save as disclosed above and the section headed "Share Option Schemes", as at March 31, 2007, none of the directors, chief executives and their respective associates had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Discloseable interests and short positions of substantial shareholders/other persons under the SFO

The register of interests in shares and short positions maintained under section 336 of the SFO showed that as at March 31, 2007, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

Long position and short position of substantial shareholders/other persons in the shares and/or underlying shares

Name	Capacity in which such interest is held	Number and description of shares	Percentage of nominal value of issued share capital
Mr. Liu Cheng Lin	Interest of a controlled corporation	1,625,000,000 (Note 1)	62.10%
Puraway Holdings Limited	Corporate	1,625,000,000 (Note 1)	62.14%
Madam Ku Ming Mei, Rouisa	Interest of spouse	1,166,203,458 (Note 2)	44.59%
Golden Infinity Co., Ltd.	Corporate	1,161,242,301 (Note 3)	44.41%

Directors' Report

Name	Capacity in which such interest is held	Number and description of shares	Percentage of nominal value of issued share capital
Taifook Securities Group Limited	Interest of a controlled corporation	1,100,000,000(L) 1,100,000,000(S) (Note 4)	42.06%(L) 42.06%(S)
Taifook (BVI) Limited	Interest of a controlled corporation	1,100,000,000(L) 1,100,000,000(S) (Note 4)	42.06%(L) 42.06%(S)
Taifook Finance Company Limited	Interest of a controlled corporation	1,100,000,000(L) 1,100,000,000(S) (Note 4)	42.06%(L) 42.06%(S)
Taifook Securities Company Limited	Corporate	1,100,000,000(L) 1,100,000,000(S) (Note 4)	42.06%(L) 42.06%(S)
Mr. Law Ka Keung	Interest of a controlled corporation	341,666,666 (Note 5)	13.06%
Keswick Agents Limited	Corporate	341,666,666 (Note 5)	13.06%
Dr. Cheng Kar Shun	Interest of a controlled corporation	343,420,000 (Note 6)	13.13%
Dragon Noble Group Limited	Corporate	312,500,000 (Note 6)	11.95%
Mr. Han Yuanlin	Interest of a controlled corporation	210,493,478 (Note 7)	8.05%
Visionary Profits Limited	Corporate	210,493,478 (Note 7)	8.05%
Dato' Dr. Cheng Yu Tung	Interest of a controlled corporation	220,000,000 (Note 8)	8.41%
Chow Tai Fook Nominee Limited	Corporate	220,000,000 (Note 8)	8.41%
Mr. Ng Chun Ping, Brendan	Interest of a controlled corporation	194,444,442 (Note 9)	7.43%
Better Year Investments Limited	Corporate	194,444,442 (Note 9)	7.43%

Notes:–

1. Mr. Liu Cheng Lin is interested in the entire issued share capital of the Puraway Holdings Limited ("Puraway"). By virtue of the SFO, he is deemed to be interested in the 1,625,000,000 new shares to be issued upon completion of an acquisition agreement dated January 30, 2007 entered into between Winning Mind Holdings Limited, a wholly owned subsidiary of the Company, and Puraway. The 1,625,000,000 new shares to be issued to the Puraway Holdings Limited represents 1,125,000,000 new shares and 500,000,000 underlying shares which may be issued upon conversion of the 3% convertible bond of the Company with maturity on the third anniversary from the date of the issue of the convertible bond, as part of the consideration deferred under the acquisition agreement.

2. Ms. Ku Ming Mei, Rouisa is the spouse of Mr. Lo Lin Shing, Simon ("Mr. Lo") and accordingly, she is deemed to be interested in 1,166,203,458 shares under the SFO.

3. Golden Infinity Co., Ltd is wholly-owned by Mr. Lo.

4. The shares represent the number of shares agreed to be underwritten by the Taifook Securities Company Limited pursuant to the placing agreement entered on January 30, 2007 between the Company and the Taifook Securities Company Limited for the placing of the placing shares to Placees. Taifook Securities Group Limited is interested in the entire issued share capital of Taifook (BVI) Limited. Taifook (BVI) Limited is Interested in the entire issued share capital of Taifook Finance Company Limited. Taifook Finance Company Limited is interested in the entire issued share capital of the Taifook Securities Company Limited. By virtue of the SFO, each of Taifook Securities Group Limited, Taifook (BVI) Limited and Taifook Finance Company Limited is deemed to be interested in the shares the Taifook Securities Company Limited is interested in.

5. Mr. Law Ka Keung is interested in the entire issued share capital of Keswick Agents Limited ("Keswick"). By virtue of the SFO, he is deemed to be interested in the 166,666,666 shares held by Keswick and the 175,000,000 shares which was interested by Keswick as a sub-underwriter of the placing agreement dated January 30, 2007 entered into between Taifook Securities and the Company.

6. Dr. Cheng Kar Shun is interested in the entire issued share capital of Dragon Noble Group Limited ("Dragon"). By virtue of the SFO, he is deemed to be interested in the 112,500,000 shares held by Dragon and the 200,000,000 new shares to be issued to Dragon upon completion of the Dragon Subscription Agreement. The 30,920,000 shares are owned by Madam Ip Mei Hing, the spouse of Dr. Cheng Kar Shun.

7. Mr. Han Yuanlin is interested in the entire issued share capital of Visionary Profits Limited ("Visionary Profits"). By virtue of the SFO, Mr. Han Yuanlin is deemed to be interested in the 210,493,478 shares held by Visionary Profits.

8. Dato' Dr. Cheng Yu Tung is interested in the entire issued share capital of Chow Tai Fook Nominee Limited ("CTF"). Among the 220,000,000 shares, 20,000,000 shares represent interest of CTF and he is deemed to be interested in the 200,000,000 new shares to be issued to CTF upon completion of the CTF subscription agreement entered on January 30, 2007 between the Company and CTF for subscription of the CFT subscription shares by virtue of the SFO.

9. Mr. Ng Chun Ping, Brendan is interested in the entire issued share capital of Better Year Investments Limited ("Better Year"). By virtue of the SFO, he is deemed to be interested in the 194,444,442 shares held by Better Year.

Abbreviations:–

"L" stands for long position

"S" stands for short position

Directors' interests in competing businesses

During the year and up to the date of this report, to the best knowledge of the directors, none of the directors and their respective associates were considered to have any interests in the businesses which compete or were likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the directors were appointed as directors to represent the interests of the Company and/or the Group.

Directors' interests in contracts of significance

On January 26, 2007 and subsequently approved by the shareholders of the Company on March 5, 2007, the Company disposed of the entire issued share capital of, and the related loans to, Modern Sparkles Investment Ltd. ("Modern Sparkles") and Peak Elite Holdings Corp. ("Peak Elite") to Mr. Lo Lin Shing, Simon (Chairman and executive director of the Company). The total consideration for the Modern Sparkles disposal and the Peak Elite disposal was HK$38.32 million.

Saved as disclosed above, no contracts of significance to which the Company, its ultimate holding company or any subsidiaries of its ultimate holding company was a part in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' service contracts

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

Management contracts

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

Directors' rights to acquire shares or debentures

On January 30, 2007, the Company entered into the subscription agreement ("Golden Subscription Agreement ") with Golden Infinity Co., Ltd ("Golden"), an investment holding company, pursuant to which Golden has agreed to subscribe for and the Company has agreed to issue 780,000,000 new shares to be allotted to Golden under the Golden Subscription Agreement. As Golden is a substantial shareholder and is wholly owned by Mr. Lo, the chairman and an executive director, the subscription of 780,000,000 new shares by Golden contemplated under the Golden Subscription Agreement constituted a connected transaction.

Save as disclosed above and under the section headed "Share option scheme" below, at no time during the year was the Company or any of its subsidiaries a party to any other arrangements to enable the directors or chief executive or any of their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, its subsidiaries or any other body corporate.

Share option scheme

Under the share option scheme adopted by the Company on August 28, 2002 (the "Option Scheme"), options were granted to certain directors, employees and other eligible participants of the Company entitling them to subscribe for shares of HK$0.02 each in the capital of the Company.

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

1 Purpose

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

2 Participants

The participants of the Option Scheme include any director, employee, consultant, agent or advisor of the Group or any entity in which the Group holds an interest.

3 Number of shares available for issue

The total number of shares available for issue under the Option Scheme is 177,417,959 which represents approximately 6.78% of the issued share capital of the Company as at the date of this report.

4 Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue unless separately approved by the shareholders in general meeting.

5 Option period

An option may be exercised in accordance with the terms of the Option Scheme at any time during the period to be notified by the directors to the grantee, but in any event such period of time must not be more than 10 years from the date of grant.

6 Vesting period

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

7 Amount payable on acceptance of option

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

8 Exercise price

The subscription price for a share in respect of any option granted shall be a price determined by the directors at their absolute discretion but shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for 5 trading days immediately preceding the offer date; and (iii) the nominal value of a share.

9. Remaining life of the scheme

The Option Scheme is valid and effective for a term of 10 years commencing from August 28, 2002.

Directors' Report

Details of the movement in outstanding share options, which have been granted under the Option Scheme, during the year are as follows:

Name or category of participant	Date of grant	Exercise price HK$	Exercise period	Vesting period	As at April 1, 2006	Granted during the year (Note 1)	Cancelled/ lapsed during the year	Exercised during the year (Note 2)	As at March 31, 2007
Directors									
Lo Lin Shing, Simon	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	4,961,157	–	–	4,960,000	1,157
Yvette Ong	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	2,395,041	–	–	2,395,000	41
To Hin Tsun, Gerald	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	1,710,744	–	–	1,710,000	744
Peter Pun	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	496,116	–	–	495,000	1,116
	08-02-2007	0.69	08-02-2007 to 07-02-2012	N/A	–	500,000	–	500,000	–
Wei Chi Kuan, Kenny	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	496,116	–	496,116	–	–
Tsui Hing Chuen, William	08-02-2007	0.69	08-02-2007 to 07-02-2012	N/A	–	500,000	–	500,000	–
Lau Wai Piu	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	496,116	–	–	495,000	1,116
	08-02-2007	0.69	08-02-2007 to 07-02-2012	N/A	–	500,000	–	500,000	–
Employees and others in aggregate (including a director of certain subsidiaries)	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	4,062,230	–	747,560	3,310,000	4,670
	15-02-2006	0.1636	15-02-2006 to 16-04-2009	N/A	688,900	–	9,300	675,000	4,600
	08-02-2007	0.69	08-02-2007 to 07-02-2012	N/A	–	28,600,000	–	2,850,000	25,750,000
					15,306,420	30,100,000	1,252,976	18,390,000	25,763,444

Directors' Report

Notes:

(1) On February 8, 2007, 30,100,000 share options granted to the employees under the Option Scheme. The closing price of the Company's shares on January 25, 2007, (the trading day immediately before the grant of the share options) was HK$0.27.

(2) The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised during the year was HK$0.855.

Connected transactions

Save as disclosed under the section headed "Directors rights to acquire shares or debentures", on January 26, 2007, the Company disposed of the entire issued share capital of, and the related loans to, Modern Sparkles Investment Ltd. ("Modern Sparkles") and Peak Elite Holdings Corp. ("Peak Elite") to Mr. Lo Lin Shing, Simon ("Mr. Lo"). As Mr. Lo is an executive director and a substantial shareholder, he is a connected person of the Company. The Modern Sparkles disposal and the Peak Elite disposal constitute discloseable and connected transactions for the Company under the Listing Rules and it was approved by the independent shareholders at the special general meeting on March 5, 2007. The transaction had been completed on May 31, 2007.

Group's borrowings

Details of the Group's borrowings are set out in notes 26 and 27 to the financial statements.

Purchase, sale or redemption of the company's listed securities

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

Pre-emptive rights

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

Audit committee

The audit committee of the Company currently comprises Messrs. Peter Pun, Tsui Hing Chuen, William and Lau Wai Piu who are independent non-executive directors of the Company and their principal duties include the review and supervision of the Company's financial reporting process, internal control procedures and relationship with the Company's external independent auditor.

The audited financial statements for the year ended March 31, 2007 have been reviewed by the audit committee.

Human Resources

As at March 31, 2007, the Group employed 13 full-time employees in Hong Kong. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on periodic basis. Apart from retirement schemes, year-end bonuses and share options are awarded to the employees according to the assessment of individual performance and industry practice. Structured training programs are also offered for staff training and development.

Disclosure pursuant to Chapter 13 of the Listing Rules

Financial assistance to affiliated companies

(a) In compliance with Rule 13.16 of Chapter 13 of the Listing Rules, details of the financial assistance given to the following affiliated companies of the Group as at March 31, 2007 which in aggregate has exceeded 8% under the assets ratio as defined under Rule 14.07(1) of Chapter 14 of the Listing Rules are set out below:

Name of affiliated companies	**Percentage of Group's attributable interests**	**Financial Assistance**
		HK$'000
BAA Jet Management Limited ("BAAJM") (Note 1)	40.10%	7,725
Cyber China Inc. ("CCI") (Note 2)	50.00%	153,247
Everbest Business Limited ("Everbest") (Note 3)	50.00%	48,569
Crown Frame Properties Limited ("Crown Frame") (Note 4)	30.00%	16,500
Moral Known Investments Limited ("Moral Known") (Note 5)	33.33%	18,333
Crestbright Investments Ltd. ("Crestbright") (Note 6)	34.00%	17,500
		261,874

Directors' Report

Notes:

(1) The Group has provided shareholder's loan and corproate guarantee on credit facilities granted from a bank and a vendor to BAAJM. The amount is interest free, unsecured and repayable on demand.

(2) The Group has provided shareholder's loan to CCI. The amount is interest free, unsecured and repayable on demand. Such amount was fully provided.

(3) The Group has provided shareholder's loan to Everbest. The amount is interest free, unsecured and represents the Group's equity contributions, in substance, to the jointly controlled entity.

(4) The Group has provided shareholder's loan to Crown Frame. The amount is interest free, unsecured and repayable on demand.

(5) The Group has provided shareholder's loan to Moral Known. The amount is interest free, unsecured and repayable on demand.

(6) The Group has provided shareholder's loan to Crestbright. The amount is interest free, unsecured and repayable on demand.

(b) In compliance with Rule 13.22 of Chapter 13 of the Listing Rules, the unaudited combined balance sheet of these affiliated companies as at March 31, 2007 is disclosed as follows:

ASSETS	HK$'000
Non-current assets	
Property, plant and equipment	1,069
Investment in associated companies	322
	1,391
Current assets	
Debtors, prepayments and other deposits	72,390
Cash and bank balances	47,498
	119,888
Current Liabilities	
Creditors, deposits and accruals	(25,613)
Amount due to immediate holding company	(259,830)
	(285,443)
Net current liabilities	(165,555)
Total assets less current liabilities	(164,164)
CAPITAL AND RESERVES	
Share capital	1
Reserves	(164,165)
	(164,164)

Sufficiency of public float

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

Independent auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

Post balance sheet events

Details of the significant events subsequent to the balance sheet date are set out in note 36 to the financial statements.

On behalf of the Board

Lo Lin Shing, Simon
Director

Hong Kong, July 9, 2007

Corporate Governance Report

Corporate Governance Practices

The board of directors of the Company (the "Board") recognizes the importance of maintaining a high standard of corporate governance to protect and enhance the benefits of shareholders and has applied the principles of the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

For the year ended March 31, 2007, the Company has complied with the code provisions of the CG Code with deviations from the code provision A.4.1, A.4.2 and E.1.2 of the CG Code as summarized below:

i. Under the code provision A.4.1 and A.4.2 of the Code, (a) non-executive directors should be appointed for a specific term and subject to re-election; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

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

ii. The code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting ("AGM") of the Company. The chairman did not attend the 2006 AGM due to other business engagement. An executive director had chaired the 2006 AGM and answered questions from shareholders. The chairman of the Audit and Remuneration Committee was also available to answer questions at the 2006 AGM.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. The Model Code is sent to each director of the Company on his/her initial appointment. One month before the date of the Board meetings to approve the Group's half-year and annual results, the Company will sent a reminder to all the directors that they cannot deal in the securities and derivatives of the Company until after such results have been published, and that all their dealings must be conducted in accordance with the Model Code. Under the Model Code, directors of the Company are required to notify the chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company, and in the case of the chairman himself, he must notify the designated director and receive a dated written acknowledgement before any dealing.

Upon specific enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in Model Code throughout the year ended March 31, 2007.

Corporate Governance Report

Attendance Record at Board, Audit and Remuneration Committees' Meeting and Annual General Meeting

The following was an attendance record of the AGM, Board and Board Committee Meetings held during the year ended March 31, 2007:

	Attendance of Meetings			
	Board	Audit committee	Remuneration committee	2006 AGM
Number of meetings	4	2	1	1
Executive directors				
Lo Lin Shing, Simon	3/4	N/A	N/A	0/1
Yvette Ong	4/4	2/2*	1/1*	1/1
Non-executive director				
To Hin Tsun, Gerald	3/4	N/A	N/A	0/1
Independent non-executive directors and Members of Audit and Remuneration Committees				
Peter Pun	3/4	1/2	1/1	1/1
Wei Chi Kuan, Kenny (resigned on September 8,2006)	1/2	0/1	0/1	1/1
Tsui Hing Chuen, William (appointed on September 8, 2006)	2/2	1/1	N/A	N/A
Lau Wai Piu *(Chairman of Audit and Remuneration Committees)*	4/4	2/2	1/1	1/1

* *Attended by invitation*

Board

a) Board Composition

The Board currently comprises two executive directors, a non-executive director and three independent non-executive directors, serving the important function of guiding the management.

The Board members for the year ended March 31, 2007 and up to the date of the annual report were:

Executive directors
Mr. Lo Lin Shing, Simon *(Chairman)*
Ms. Yvette Ong

Non-executive director
Mr. To Hin Tsun, Gerald

Independent non-executive directors
Mr. Peter Pun *OBE, JP*
Mr. Wei Chi Kuan, Kenny (resigned on September 8, 2006)
Mr. Tsui Hing Chuen, William, *JP* (appointed on September 8, 2006)
Mr. Lau Wai Piu

None of the members of the Board is related to one another.

During the year, Mr. Wei Chi Kuan, Kenny resigned as an independent non-executive director on his own accord. The executive directors of the Company were responsible for identifying an appropriate candidate to fill the vacancy arising from the resignation of Mr. Wei. The executive directors considered the following attributes or qualifications in evaluating a person's candidacy for membership on the Board:

– management and leadership experience;

– skilled and diverse background;

– integrity and professionalism; and

– independency.

Further, the potential candidate must be willing to commit sufficient time available to discharge the duties of Board membership. After due consideration by the executive directors, Mr. Tsui Hing Chuen, William *JP* was appointed on September 8, 2006 to fill the vacancy left by Mr. Wei.

During the year ended March 31, 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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

b) Role and Function

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as when necessary, directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that Board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

For the year ended March 31, 2007, the Board:–

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

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

iii. reviewed the internal controls of the Group;

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

v. reviewed and approved the price-sensitive transactions;

vi. reviewed and approved the notifiable transactions of the Company; and

vii. reviewed and approved the auditor's remuneration and recommed the re-appointment of PricewaterhouseCoopers as the external independent auditor of the Group respectively.

To the best knowledge of the Company, there is no financial, business and family relationship among our directors between the chairman and the chief executive officer. All of them are free to exercise their independent judgment.

c) Chairman and Chief Executive Officer

The chairman and chief executive officer of the Company during the year ended March 31, 2007 were Mr. Lo Lin Shing, Simon and Ms. Yvette Ong (Mr. James J. Schaeffer, Jr. was appointed subsequent to the year ended date to replace Ms. Yvette Ong to assume the role of Chief Executive Officer).

The chairman's responsibility is to provide leadership to the Board and formulate the Group's business strategies.

The chief executive officer responsible to implement the strategic business plans for the Company including, in particular, the coal energy business of the Group.

d) Accountability and Audit

The directors are responsible for preparing the accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The directors also ensure that the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting policies.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 37.

e) Internal Control and Risk Management

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

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. This process includes continuous updating of the internal control system of the Group in response to the changing business environment and regulatory requirements. A Group Compliance Counsel was recruited after the year ended to strength the internal control and review process. The Board is also conducting a review of the internal controls of the Group to ensure that the policies and procedures in place are adequate. During the year, an independent professional consultant was engaged to conduct the internal control review of the Group and reported to the Audit Committee and the Company. No major issue but only minor areas for improvement had been identified. The Board assesses the effectiveness of the Group's internal control system which covers all material controls, including financial, operational and compliance controls and risk management functions.

Board Committees

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

- Audit Committee
- Remuneration Committee

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

Audit Committee

The audit committee currently consists of three independent non-executive directors.

a) *Composition of Audit Committee Members*
Mr. Lau Wai Piu *(Chairman of Audit Committee)*
Mr. Peter Pun
Mr. Tsui Hing Chuen, William (appointed on September 8, 2006)
Mr. Wei Chi Kuan, Kenny (resigned on September 8, 2006)

b) *Role and Function*
The Audit Committee is mainly responsible for:

i. to review the Group's financial and accounting policies and financial statements half yearly before submission to, and providing advice and comments thereon to the Board;

ii. to discuss with the external independent auditor the nature and scope of audit and review audit issues raised by the external independent auditor;

iii. to review the financial controls, internal controls and risk management systems of the Group; and

iv. to consider the appointment, resignation or dismissal of external independent auditor and their audit fees.

Remuneration Committee

The Remuneration Committee currently consists of three independent non-executive directors.

a) *Composition of Remuneration Committee Members*
Mr. Lau Wai Piu *(Chairman of Audit Committee)*
Mr. Peter Pun
Mr. Tsui Hing Chuen, William (appointed on September 8, 2006)
Mr. Wei Chi Kuan, Kenny (resigned on September 8, 2006)

b) *Role and Function*
The Remuneration Committee is mainly responsible for:

i. reviewing and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

ii. ensuring the remuneration offer is appropriate for the duties and in line with market practice;

iii. making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and engage an independent consultant to conduct a Report on Emoluments Review; and

iv. ensuring that no director or any of his associates is involved in deciding his own remuneration. Where circumstances are considered appropriate, the Remuneration Committee decisions are approved by way of written resolutions passed by all the Remuneration Committee members.

Independent Auditor

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the independent auditor's report. Apart from the provision of annual audit services, PricewaterhouseCoopers, the independent auditor of the Company also carried out certain procedures on the unaudited proforma statement and details of indebtedness of the Group in respect of the circulars of the Group.

Corporate Governance Report

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 37.

During the year under review, the professional fee paid/payable to the Company's independent auditor, PricewaterhouseCoopers is set out as follows:

	HK$'000
Audit services	867
Non-audit services	1,418

Responsibilities in respect of the Financial Statements

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

Independent Auditor's Report

羅兵咸永道會計師事務所

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Facsmile (852) 2810 9888
www.pwchk.com

TO THE SHAREHOLDERS OF MONGOLIA ENERGY CORPORATION LIMITED
(formerly known as New World CyberBase Limited)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Mongolia Energy Corporation Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 96, which comprise the consolidated and Company balance sheets as at March 31, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditor's Report

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at March 31, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion we draw attention to Note 2.1 to the financial statements which explains that the Company's and the Group's ability to continue as a going concern depends on the success of the acquisitions of mining rights and its ability to attain a profitable mining operation in future. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Group's ability to continue as a going concern.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, July 9, 2007

Consolidated Income Statement

For the year ended March 31, 2007

	Note	2007 HK$'000	2006 HK$'000
Continuing operations:			
Turnover	5	39,773	24,052
Interest income		4,351	1,954
Dividend income	7	20,442	–
Direct aviation costs		(12,842)	(3,657)
Staff costs	8	(23,766)	(7,966)
Depreciation		(8,180)	(842)
Other operating expenses		(20,558)	(14,218)
Fair value loss on investment properties	15	(35,000)	–
Provision for impairment on amounts due from associated companies and an investee company		(4,015)	–
Fair value gain/(loss) on financial assets at fair value through profit or loss		40,226	(19,422)
Reversal of impairment losses on long term receivable		11,179	7,545
Reversal of impairment losses on amount due from a related company		3,037	–
Gain on disposal of financial assets at fair value through profit or loss		5,870	–
Gain on disposal of interest in subsidiaries		2,703	–
Operating profit/(loss)	7	23,220	(12,554)
Finance costs	10	(16,145)	(7,430)
Share of profits of associated companies		67	–
Share of loss of a jointly controlled entity		(2)	(3)
Profit/(loss) before income tax		7,140	(19,987)
Income tax credit/(expense)	11	4,709	(811)
Profit/(loss) from continuing operations		11,849	(20,798)
Discontinued operations:			
Profit from discontinued operations	6	–	19,407
Profit/(loss) for the year		11,849	(1,391)
Attributable to:			
Equity holders of the Company		11,849	(1,383)
Minority interests		–	(8)
		11,849	(1,391)

Consolidated Income Statement

For the year ended March 31, 2007

	Note	2007 HK$'000	2006 HK$'000
Earnings/(loss) per share for profit/(loss) from continuing operations attributable to the equity holders of the Company for the year	13		
– basic (HK cents)		**0.62**	(3.83)
– diluted (HK cents)		**1.10**	(2.84)
Earnings per share for profit from discontinued operations attributable to the equity holders of the Company for the year	13		
– basic (HK cents)		**–**	3.58
– diluted (HK cents)		**–**	2.86

Consolidated Balance Sheet

As at March 31, 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	14	139,897	143,992
Investment properties	15	350,000	385,000
Associated companies	17	9,246	–
Jointly controlled entity	19	48,567	15,104
Long term receivable	20	–	12,668
Financial assets at fair value through profit or loss	21	–	42,524
Other asset	22	1,150	1,150
		548,860	600,438
Current assets			
Accounts receivable	23	2,075	4,475
Other receivables, prepayments and deposits		46,489	4,998
Assets held for sale – associated companies	18	52,402	–
Financial assets at fair value through profit or loss	21	125,098	27,946
Amounts due from related companies	34(d)	445	8,717
Tax prepaid		–	55
Cash and cash equivalents	24	67,710	171,485
		294,219	217,676
Current liabilities			
Accounts payable	25	7,883	4,207
Other payables and accruals		27,950	11,972
Short-term bank loans	26	126,800	151,724
Tax payable		671	341
		163,304	168,244
Net current assets		130,915	49,432
Total assets less current liabilities		679,775	649,870
Non-current liabilities			
Convertible notes	27	–	175,528
Deferred income tax liabilities	28	38,381	47,216
		38,381	222,744
Net assets		641,394	427,126

Consolidated Balance Sheet

As at March 31, 2007

	Note	2007 HK$'000	2006 HK$'000
Financed by:			
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	**52,327**	29,737
Reserves	30	**589,010**	397,332
		641,337	427,069
Minority interests		**57**	57
Total equity		**641,394**	427,126

Lo Lin Shing, Simon
Director

Yvette Ong
Director

Balance Sheet

As at March 31, 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Subsidiaries	16	**166,668**	166,668
Current assets			
Amounts due from subsidiaries	16	**269,703**	215,972
Other receivables		**37,964**	1,482
Financial assets at fair value through profit or loss	21	**26,229**	27,946
Cash and cash equivalents	24	**55,923**	162,749
		389,819	408,149
Current liabilities			
Amounts due to subsidiaries	16	**44,740**	48,414
Other payables and accruals		**23,573**	3,977
		68,313	52,391
Net current assets		**321,506**	355,758
Total assets less current liabilities		**488,174**	522,426
Non-current liabilities			
Convertible notes	27	**–**	175,528
Deferred income tax liabilities	28	**–**	3,495
		–	179,023
Net assets		**488,174**	343,403
Financed by:			
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	**52,327**	29,737
Reserves	30	**435,847**	313,666
		488,174	343,403

Lo Lin Shing, Simon
Director

Yvette Ong
Director

Consolidated Statement of Changes in Equity

For the year ended March 31, 2007

	Attributable to equity holders of the Company				
	Share capital HK$'000	**Other reserves** HK$'000	**Retained profits** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
Balance at April 1, 2005	8,737	222,944	20,824	65	252,570
Convertible notes					
– equity component (Note 27)	–	21,468	–	–	21,468
Deferred tax on equity component					
of convertible notes (Note 28)	–	(3,757)	–	–	(3,757)
Share-based					
compensation expenses	–	1,760	–	–	1,760
Issue of shares (Notes 29 and 30)	21,000	141,761	–	–	162,761
Share issue expenses	–	(6,285)	–	–	(6,285)
Lapse of share options	–	(23)	23	–	–
Loss for the year	–	–	(1,383)	(8)	(1,391)
Balance at March 31, 2006	29,737	377,868	19,464	57	427,126
Balance at April 1, 2006	29,737	377,868	19,464	57	427,126
Share-based					
compensation expenses	–	12,289	–	–	12,289
Issue of shares (Notes 29 and 30)	22,590	167,540	–	–	190,130
Profit for the year	–	–	11,849	–	11,849
Balance at March 31, 2007	52,327	557,697	31,313	57	641,394

Consolidated Cash Flow Statement

For the year ended March 31, 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flow from operating activities			
Cash used in operations	33(a)	(741)	(13,979)
Interest paid		(10,415)	(5,934)
Interest received		4,351	1,954
Hong Kong profits tax refund/(paid)		40	(268)
Net cash used in operating activities		(6,765)	(18,227)
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		180	–
Purchase of property, plant and equipment		(5,221)	(145,640)
Acquisitions of associated companies		(8,729)	–
Advances to associated companies		(58,348)	(1,112)
Advance to a jointly controlled entity		(33,467)	(15,107)
Dividend received		20,442	–
Repayment received from long term receivable		23,877	–
Purchase of financial assets at fair value through profit or loss		(32,409)	–
Proceeds from disposals of financial assets at fair value through profit or loss		23,847	–
Net cash outflows on disposal of subsidiaries	33(b)	(7,635)	(10,675)
Net cash used in investing activities		(77,463)	(172,534)
Cash flows from financing activities			
Proceeds from issuance of shares		5,377	162,761
Share issue expenses		–	(6,285)
Drawdown of short-term loans		–	22,285
Repayment of short-term loans		(24,924)	(53,763)
Release of restricted bank balances and cash deposits		–	540
Issue of convertible notes		–	195,500
Net cash (used in)/generated from financing activities	33(c)	(19,547)	321,038
Net (decrease)/increase in cash and cash equivalents		(103,775)	130,277
Cash and cash equivalents at beginning of year		171,485	41,208
Cash and cash equivalents at end of year	24	67,710	171,485

Notes to the Financial Statements

1 General information

The Company is a limited liability company incorporated in Bermuda. The address of its principal place of business is Room 1502-5, New World Tower 1, 16-18 Queen's Road Central, Hong Kong. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Pursuant to a special resolution passed at a special general meeting held on April 18, 2007, the name of the Company was changed from New World Cyberbase Limited to Mongolia Energy Corporation Limited. The Company and its subsidiaries (together the "Group") are principally engaged in property investments and provision of charter flight services. The Group has discontinued the provision of technology related services in 2006 upon disposal of certain subsidiaries as set out in Note 6.

On January 30, 2007, the Company entered into an agreement ("Acquisition Agreement") relating to the acquisition of a coal mine in western Mongolia with at least 300 million tonnes of reserves. The acquisition agreement was approved by the shareholders on April 18, 2007 and the transaction is expected, subject to certain conditions, to be completed within 12 months from the date of the Acquisition Agreement by January 2008. The proposed acquisition signifies the Group's new venture into coal energy business. Details of the acquisition are disclosed in note 36.

The consolidated financial statements have been approved for issue by the Board of Directors on July 9, 2007.

2 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention as modified by the revaluation of investment properties, financial assets and liabilities at fair value through profit or loss.

During the year, the Group has announced to acquire new mining concession/rights and consequently subject to the completion of the Acquisition Agreement, the Group's principal business is coal energy and mining activities. The Directors consider that in preparing the financial statements they have taken into account all information that could reasonably be expected to be available. On this basis, they consider that it is appropriate to prepare the financial statements on the going concern basis. This assumes that the acquisitions mentioned in Note 36 are successful and a profitable mining operation can be attained in future. The financial statements do not include any adjustments that would result if the acquisitions are not successful or a profitable mining operation cannot be attained.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4 to the financial statements.

Notes to the Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) *Standards, amendments and interpretations effective for the year ended March 31, 2007*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after January 1, 2006 and are relevant to the Group's operations:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of HKAS 19 Amendment, HKAS 39 and HKFRS 4 Amendment and HK(IFRIC)-Int 4 above did not result in significant impact to the Group's consolidated financial statements. Upon the adoption of HKAS 39 (Amendment), The Fair Value Option, the Group reassessed the investments designated in the financial assets at fair value through profit or loss category and re-classified certain financial assets from non-current assets to current assets in the consolidated financial statements for the year ended March 31, 2007.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after April 1, 2006 but are not relevant or do not have significant impact to the Group:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKFRS 1 & HKFRS 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

(b) *Standards, amendment and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following new standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after April 1, 2007 or later periods:

HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures, are effective for accounting periods beginning on or after January 1, 2007. HKFRS 7 introduces new disclosures relating to financial instruments. The Group will apply HKFRS 7 from April 1, 2007, but it is not expected to have any impact on the classification and valuation of the Group's financial instruments;

Notes to the Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) *Standards, amendment and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)*

HKFRS 8, Operating Segments, is effective for accounting periods beginning on or after January 1, 2009. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. The Group will apply HKFRS 8 from April 1, 2009;

HK(IFRIC)-Int 8, Scope of HKFRS 2, is effective for accounting periods beginning on or after May 1, 2006. HK (IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from April 1, 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

HK(IFRIC)-Int 10, Interim financial reporting and impairment, is effective for accounting periods beginning on or after November 1, 2006. HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from April 1, 2007, but it is not expected to have any impact on the Group's financial statements; and

HK(IFRIC)-Int 11, HKFRS 2 – Group and treasury share transactions, is effective for accounting periods beginning on or after March 1, 2007. HK(IFRIC)-Int 11 requires that certain types of transactions are accounted for as equity-settled or cash-settled transactions under HKFRS 2. It also addresses the accounting for share-based payment transactions involving two or more entities within one group. The Group will apply HK(IFRIC)-Int 11 from April 1, 2007, but it is not expected to have any impact to the Group's consolidated financial statements.

(c) *Interpretations to existing standards that are not yet effective and not relevant to the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after April 1, 2007 or later periods but are not relevant to the Group's operations:

HK(IFRIC)-Int 7, Applying the restatement approach under HKAS 29, Financial Reporting in Hyperinflationary Economies, is effective for accounting periods beginning on or after March 1, 2006. HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations;

Notes to the Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) *Interpretations to existing standards that are not yet effective and not relevant to the Group's operations (Continued)*

HK(IFRIC)-Int 9, Reassessment of embedded derivatives, is effective for accounting periods beginning on or after June 1, 2006. HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations; and

HK(IFRIC)-Int 12, Service concession arrangements, is effective for accounting periods beginning on or after January 1, 2008. HK(IFRIC)-Int 12 provides guidance on the accounting by operators in public-to-private service concession arrangements. As none of the group entities have service concession arrangements, HK(IFRIC)-Int 12 is not relevant to the Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 March.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(Continued)*

(a) *Subsidiaries (Continued)*

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) *Associated companies*

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) *Joint ventures*

A jointly controlled entity is a joint venture in which the Group and other parties undertake an economic activity which is subject to jointly control and none of the participating parties has unilateral control over the economic activity. The Group's investments in jointly controlled entity are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its jointly controlled entity's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Notes to the Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates prevailing the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and borrowings are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over the estimated useful lives, as follows:

Leasehold improvements	over unexpired lease terms
Computer equipment	3 years
Furniture, fixtures and office equipment	5 – 10 years
Motor vehicles	5 years
Aircraft and engines	12 – 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on valuations carried out at least annually by external valuers. Changes in fair values are recognised in the income statement.

Notes to the Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.6 Investment properties *(Continued)*

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its investments other than subsidiaries, associated companies and jointly controlled entities, in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, if the maturities of the assets are less than 12 months after the balance sheet date. For items with the maturities greater than 12 months after balance sheet date, they are classified as non-current assets. Loans and receivables are included in "accounts and other receivables" in the balance sheet.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

Notes to the Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.8 Financial assets *(Continued)*

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category (including interest and dividend income) are included in the income statement in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current quoted bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Notes to the Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.8 Financial assets *(Continued)*

(d) Available-for-sale financial assets (Continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Accounts and other receivables

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and cash investments with a maturity of three months or less from the date of investment.

2.11 Borrowings

Bank and other loans are recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effect.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 Summary of significant accounting policies *(Continued)*

2.12 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and the jointly controlled entity, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Employee benefits

(a) *Retirement benefits*

For employees in Hong Kong, a mandatory provident fund scheme ("MPF Scheme") has been established pursuant to the Hong Kong Mandatory Provident Fund Scheme Ordinance under which the Group's Hong Kong employees are compulsorily required to join the MPF Scheme. Employer's mandatory contributions are 100% vested in the employees as soon as they are paid to the MPF Scheme.

Contributions made by the Group under the MPF Scheme are charged to the income statement as they become payable in accordance with the rules of the scheme. The assets of the MPF Scheme are held separately from those of the Group and managed by independent professional fund managers.

(b) *Leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Notes to the Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.13 Employee benefits *(Continued)*

(c) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.14 Provisions

Provisions are recognised when the Group has a present or constructive obligation as a result of past events; it is probable an outflow or resources will be required to settle that obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.15 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made or received under operating leases are charged or credited to the income statement on a straight-line basis over the period of the lease.

2.16 Borrowings costs

All borrowing costs are charged to the income statement in the year in which they are incurred.

2.17 Revenue recognition

(a) *Rental and management fee income*

Operating lease rental income and management fee income are recognised on a straight-line basis over the lease periods.

Notes to the Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.17 Revenue recognition *(Continued)*

(b) *Charter flight income*

Charter flight income is recognised when transportation services are rendered.

(c) *Interest income*

Interest income is recognised on a time proportion basis using the effective interest method.

2.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Non-current asset held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2.20 Insurance Contracts

The Group regards its financial guarantees provided for banking facilities granted to subsidiaries and associated companies as insurance contracts. The Group assesses at each balance sheet date the liabilities under its insurance contracts in respect financial guarantees provided to subsidiaries and associated companies using current estimates of future cash flows. Changes in carrying amount of these insurance liabilities are recognised in the income statement.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, price risk, credit risk, liquidity risk and interest-rate risk. The use of financial derivatives to hedge certain risk exposures is governed by the Group's financial management policies. The Group does not use derivative financial instruments for speculative purposes.

(a) *Foreign exchange risk*

The Group mainly operates in Hong Kong with most of its transactions settled in HK$ and United States dollar ("US$"). The Group also has certain investments in associated companies in Mainland China. The Group's assets and liabilities, and transactions arising from its operations that are exposed to foreign exchange risk are primarily with respect to Renminbi ("RMB") and US$. The Group has not used any forward contracts or currency borrowings to hedge its exposure as foreign exchange risk is considered minimal.

(b) *Price risk*

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) *Credit risk*

The Group has no significant concentrations of credit risk. The Group regularly reviews the credit terms and credit limits granted to individual customer, and it has policies in place to ensure that sales are made to customers with an appropriate credit history.

(d) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through its operations and an adequate amount of committed credit facilities. The management aims to maintain flexibility in funding by keeping committed credit lines available.

(e) *Interest rate risk*

The Group's income and operating cash flow are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash and cash equivalents, details of which have been disclosed in Note 24. The Group's exposure to changes in interest rates is mainly attributable to its short-term loans and convertible notes, details of which have been disclosed in Notes 26 and 27 respectively. Short-term loans bearing interest at floating rates expose the Group to cash flow interest rate risk. Convertible notes issued at fixed rate expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying amounts less any estimated impairment provision (as appropriate) of the Group's current financial assets (other than financial instruments), including cash and cash equivalents, accounts receivable, other receivables, prepayments and deposits, and current financial liabilities, including creditors, deposits and accruals and short-term loans, approximate their fair values due to their short maturities.

The fair value of other financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Notes to the Financial Statements

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

4.1 Investment properties

The fair values of investment properties are determined annually by independent qualified valuers on an open market existing use basis. In making the judgement, consideration has been given to assumptions that are mainly on market conditions existing at the balance sheet date and appropriate capitalisation rates of rental income.

4.2 Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations.

The estimated useful life of the engines for the aircraft is determined by independent qualified valuers assuming the engines have normal utilisation of the same or similar type of engines and good maintenance program. Different judgements or estimates could significantly affect the estimated useful life and impact the results of operations.

Management reviews useful lives at each balance sheet date, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4.3 Convertible notes

The fair value of the liability component of the convertible notes is estimated by independent professional valuer based on transactions of similar financial instruments in the market which generally represent the best estimate of the market value.

4.4 Share-based payment

The fair values of options at the date of granting the options are estimated by independent professional valuer based on the assumptions on volatility, life of options, dividend yield and annual risk-free interest rate, excluding the impact of non-market vesting conditions.

4.5 Income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision of income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the Financial Statements

5 Turnover and segment information

The Group is principally engaged in property investments and provision of charter flight services. The Group ceased the provision of technology related services following the disposal of certain subsidiaries in 2006 as set out in Note 6.

Revenues recognised during the year are as follows:

	2007 HK$'000	2006 HK$'000
Turnover		
Rental income from investment properties	**19,132**	15,471
Management fee from investment properties	**4,397**	4,022
Gross rental income and management fee	**23,529**	19,493
Charter flight income	**16,244**	4,559
	39,773	24,052

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Primary reporting format – business segments

In 2007, the Group is organised into two main business segments, namely property investments and charter flight services. In previous year, in addition to the existing business segments, the Group had a technology related services operation which was ceased in 2006.

There are no sales or other transactions between business segments.

Notes to the Financial Statements

5 Turnover and segment information *(Continued)*

Primary reporting format – business segments

The segment results for the year ended March 31, 2007 are as follows:

	Continuing		Total
	Property investments	Charter flight services	Continuing
	HK$'000	HK$'000	HK$'000
Turnover	23,529	16,244	39,773
Segment results	(17,015)	(14,634)	(31,649)
Unallocated corporate expenses			(28,924)
Unallocated operating income/(expenses)			
– Interest income			4,351
– Dividend income			20,442
– Fair value gain on financial assets at fair value through profit or loss			40,226
– Reversal of impairment losses on long term receivable			11,179
– Gain on disposal of subsidiaries			2,703
– Gain on disposal of financial assets at fair value through profit or loss			5,870
– Reversal of impairment loss of amount due from a related company			3,037
– Provision for impairment on amounts due from associated companies and an investee company			(4,015)
Operating profit			23,220
Finance costs			(16,145)
Share of profits of associated companies (unallocated)			67
Share of loss of a jointly controlled entity	–	(2)	(2)
Profit before income tax			7,140
Income tax credit			4,709
Profit for the year			11,849
Depreciation	–	7,927	7,927
Unallocated depreciation			253
			8,180
Unallocated capital expenditure			5,221

Notes to the Financial Statements

5 Turnover and segment information *(Continued)*

Primary reporting format – business segments *(Continued)*

The segment results for the year ended March 31, 2006 are as follows:

	Continuing		Discontinued		Total	
	Property investments HK$'000	Charter flight services HK$'000	Property investments HK$'000	Technology related services HK$'000	Continuing HK$'000	Discontinued HK$'000
Turnover	19,493	4,559	197	14,351	24,052	14,548
Segment results	14,165	(2,739)	164	(7,849)	11,426	(7,685)
Unallocated corporate (expenses)/income					(14,057)	1,249
Unallocated operating income/(expenses)						
– Interest income					1,954	26
– Fair value loss on financial assets at fair value through profit or loss					(19,422)	–
– Reversal of impairment losses on long term receivable					7,545	–
– Provision for amounts due from associated companies					–	(1,112)
– Gain on disposal of subsidiaries					–	26,929
Operating (loss)/profit					(12,554)	19,407
Finance costs					(7,430)	–
Share of loss of a jointly controlled entity	–	(3)	–	–	(3)	–
(Loss)/profit before income tax					(19,987)	19,407
Income tax expense					(811)	–
(Loss)/profit for the year					(20,798)	19,407
Depreciation	–	667	–	611	667	611
Unallocated depreciation					175	–
					842	611
Capital expenditure	–	144,399	–	1,188	144,399	1,188
Unallocated capital expenditure					53	–
					144,452	1,188

Notes to the Financial Statements

5 Turnover and segment information *(Continued)*

Primary reporting format – business segments *(Continued)*

Segment assets consist primarily of property, plant and equipment, investment properties, operating cash and other current assets and exclude certain investments, cash and bank balances and certain other current assets. Segment liabilities comprise operating liabilities and exclude items such as short term loans, convertible notes and deferred income tax liabilities.

Capital expenditure represents additions to plant and equipment, including additions resulting from acquisitions through business combinations.

The segment assets and liabilities at March 31, 2007 are as follows:

	Property investments HK$'000	**Charter flight services HK$'000**	**Unallocated HK$'000**	**Total HK$'000**
Assets	**362,099**	**198,056**	**282,924**	**843,079**
Liabilities	**6,046**	**2,834**	**192,805**	**201,685**

The segment assets and liabilities at March 31, 2006 are as follows:

	Property investments HK$'000	Charter flight services HK$'000	Unallocated HK$'000	Total HK$'000
Assets	389,235	168,049	260,830	818,114
Liabilities	4,389	4,097	382,502	390,988

Notes to the Financial Statements

5 Turnover and segment information *(Continued)*

Secondary reporting format – geographical segments

The Group operates in two main geographical areas:

Hong Kong:	Property investments and charter flight services
The Mainland China:	Technology related services and property investments (discontinued in 2006)

There are no sales between geographical segments.

	For the year ended 31 March,			
	Turnover		Capital expenditure	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Hong Kong – Continuing	**39,773**	24,052	**5,221**	144,452
Mainland China – Discontinued	**–**	14,548	**–**	1,188
	39,773	38,600	**5,221**	145,640

	March 31, 2007 HK$'000	March 31, 2006 HK$'000
Total assets		
Hong Kong	**781,950**	818,061
Mainland China	**61,129**	53
	843,079	818,114

Turnover is allocated based on the countries or locations in which the customers are located. Total assets and capital expenditure are allocated based on where the assets are located. The total assets located in Mainland China comprised investments in associated companies.

Notes to the Financial Statements

6 Discontinued operations

In the financial year ended March 31, 2006, the Group disposed of its entire interest in New World CyberBase Solutions (BVI) Limited and its subsidiaries (collectively the "NWCBVI Group") to New World Mobile Holdings Limited ("NWM"), a company incorporated in Cayman Island and listed on the Stock Exchange of Hong Kong Limited. The disposal was approved by the independent shareholders of the Company at the Special General Meeting on October 18, 2005 and completed on October 21, 2005.

An analysis of the results and cash flows of the discontinued operations in 2006 was as follows:

	2006
	HK$'000
Turnover	14,548
Interest income	26
Staff costs	(6,178)
Depreciation	(611)
Provision for amounts due from associated companies	(1,112)
Other operating expenses	(14,195)
Loss before income tax	(7,522)
Income tax expense	–
	(7,522)
Gain on disposal of subsidiaries (Note 33(b))	26,929
Profit from discontinued operations	19,407
Net cash used in operating activities	(10,156)
Net cash used in investing activities	(1,221)
Net cash generated from financing activities	11,371
Net cash outflow	(6)

No tax charge or credit arose from the disposal of NWCBVI Group. The carrying amounts of the assets and liabilities of NWCBVI Group at the date of disposal are disclosed in Note 33(b).

Notes to the Financial Statements

7 Operating profit/(loss)

Operating profit/(loss) is stated after crediting and charging the following:

	2007 HK$'000	2006 HK$'000
Crediting		
Dividend income from listed investments	20,442	–
Charging		
Auditor's remuneration	867	650
Operating lease rental in respect of land and buildings	1,332	499
Direct operating expenses arising from investment properties that generate rental income	5,292	3,177
Direct operating expenses arising from investment properties that did not generate rental income	126	127

8 Staff costs (including directors' remuneration)

	2007 HK$'000	2006 HK$'000
Wages and salaries	11,343	6,085
Retirement benefit costs – defined contribution plan	134	121
Share options granted to directors and employees	12,289	1,760
	23,766	7,966

The retirement benefit costs under MPF Scheme charged to the income statement represent gross contributions payable by the Group to the MPF Scheme of HK$134,000 (2006: HK$121,000). At March 31, 2007, no contribution was payable to the scheme and there was no unutilised forfeited contributions (2006: Nil).

Notes to the Financial Statements

9 Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of each of the directors for the year ended March 31, 2007 is as follows:

Name of Director	Fees	Salaries	Other benefits	Share option benefits	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	–	–	648	–	–	648
Yvette Ong	–	1,707	45	–	12	1,764
Non-executive director						
To Hin Tsun, Gerald	10	–	–	–	–	10
Independent non-executive directors						
Peter Pun	100	–	–	204	–	304
Wei Chi Kuan, Kenny	44	–	–	–	–	44
Lau Wai Piu	100	–	–	204	–	304
Tsui Hing Chuen, William	56	–	–	204	–	260
	310	1,707	693	612	12	3,334

Notes to the Financial Statements

9 Directors' and senior management's emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

The remuneration of each of the directors for the year ended March 31, 2006 is as follows:

Name of Director	Fees	Salaries	Other benefits	Share option benefits	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	–	–	530	553	–	1,083
Yvette Ong	–	1,834	181	267	12	2,294
Non-executive director						
To Hin Tsun, Gerald	10	–	–	191	–	201
Independent non-executive directors						
Peter Pun	100	–	–	55	–	155
Wei Chi Kuan, Kenny	100	–	–	55	–	155
Lau Wai Piu	100	–	–	55	–	155
	310	1,834	711	1,176	12	4,043

During the two years, no director waived any directors' emoluments.

(b) Senior executives' emoluments

The five individuals whose emoluments were the highest in the Group for the year include one (2006: one) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2006: four) highest paid individuals during the year are as follows:

	2007	2006
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**4,739**	2,814
Discretionary bonus	**184**	457
Contributions to pension scheme	**46**	48
Share option benefits	**11,248**	266
	16,217	3,585

Notes to the Financial Statements

9 Directors' and senior management's emoluments *(Continued)*

(b) Senior executives' emoluments *(Continued)*

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2007**	2006
Nil – HK$1,000,000	**2**	3
HK$1,000,001 – HK$1,500,000	**1**	1
HK$11,000,001 – HK$11,500,000	**1**	–
	4	4

(c) During the year, no emoluments have been paid by the Group to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 Finance costs

	2007	2006
	HK$'000	HK$'000
Interest expense:		
– short-term bank loans	**6,771**	6,542
– convertible notes wholly repayable within five years (Note 27)	**9,374**	1,496
	16,145	8,038
Less: Write-back of interest payable for other loan, net	**–**	(608)
	16,145	7,430

Notes to the Financial Statements

11 Income tax (credit)/expense

Hong Kong profits tax has been provided for at the rate of 17.5% on the estimated assessable profit for the year (2006: Nil). Taxation on overseas profits has not been provided for as the Group has no estimated assessable profit for the year (2006: Nil).

The amount of tax (credited)/charged to the consolidated income statement represents:

	2007 HK$'000	2006 HK$'000
Current income tax:		
– Hong Kong profits tax	616	286
– Under provision for Hong Kong profits tax in prior year	15	–
Deferred income tax (Note 28)	(5,340)	525
	(4,709)	811

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

	2007 HK$'000	2006 HK$'000
Profit/(loss) before income tax from continuing operations	7,140	(19,987)
Loss before income tax from discontinued operations (Note 6)	–	(7,522)
	7,140	(27,509)
Calculated at a tax rate of 17.5% (2006: 17.5%)	1,250	(4,814)
Tax effect on income not subject to tax	(15,488)	(1,545)
Tax effect on expenses not deductible for tax purposes	1,676	3,693
Tax effect on tax loss not recognised	7,838	3,477
Under provision in prior year	15	–
Income tax (credit)/expense	(4,709)	811

12 Profit/(loss) attributable to equity holders of the Company

Profit/(loss) attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a loss of HK$57,648,000 (2006: HK$34,469,000) (Note 30(b)).

Notes to the Financial Statements

13 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) for the year attributable to the equity holders of the Company (net of minority interests) and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings/(loss) per share is based on profit/(loss) attributable to the equity holders of the Company (net of minority interests), interest expense on convertible notes and the weighted average number of ordinary shares in issue during the year, as used in the calculation of basic earnings/(loss) per share and the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2007	2006
	HK$'000	HK$'000
Earnings/(loss)		
Profit/(loss) from continuing operations attributable to the equity holders of the Company (net of minority interests), as used in the calculation of basic earnings/(loss) per share	**11,849**	(20,790)
Interest expense on convertible notes	**9,374**	1,496
Profit/(loss) from continuing operations attributable to the equity holders of the Company, as used in the calculation of diluted earnings/(loss) per share	**21,223**	(19,294)
Profit from discontinued operations attributable to equity holders of the Company	**–**	19,407

	Number of shares	
	2007	2006
	(thousand)	(thousand)
Weighted average number of ordinary shares in issue		
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**1,924,389**	542,316
Effect of dilutive potential ordinary shares:		
Convertible notes	**–**	130,898
Share options	**9,894**	6,098
Weighted average number of ordinary shares in issue for diluted earnings/(loss) per share	**1,934,283**	679,312

Notes to the Financial Statements

14 Property, plant and equipment – Group

	Leasehold improvements	Computer equipment	Furniture, fixtures and office equipment	Motor vehicles	Aircraft	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost						
At March 31, 2005	659	8,406	2,068	1,058	–	12,191
Additions	668	1,027	377	–	143,568	145,640
Exchange difference	9	84	21	13	–	127
Disposal of subsidiaries (Note 33(b))	(716)	(6,174)	(1,327)	(674)	–	(8,891)
At March 31, 2006	620	3,343	1,139	397	143,568	149,067
At March 31, 2006	620	3,343	1,139	397	143,568	149,067
Additions	1,484	255	250	3,232	–	5,221
Disposals/written off	(179)	–	(335)	(397)	–	(911)
Disposal of subsidiaries (Note 33(b))	(642)	(204)	(214)	–	–	(1,060)
At March 31, 2007	**1,283**	**3,394**	**840**	**3,232**	**143,568**	**152,317**
Accumulated depreciation						
At March 31, 2005	596	6,715	1,878	587	–	9,776
Charge for the year	174	429	100	109	641	1,453
Disposals/written off	11	56	19	9	–	95
Disposal of subsidiaries (Note 33(b))	(603)	(4,055)	(1,098)	(493)	–	(6,249)
At March 31, 2006	178	3,145	899	212	641	5,075
At March 31, 2006	178	3,145	899	212	641	5,075
Charge for the year	119	40	25	146	7,850	8,180
Disposal/written off	(182)	–	(330)	(219)	–	(731)
Disposal of subsidiaries (Note 33(b))	(63)	(26)	(15)	–	–	(104)
At March 31, 2007	**52**	**3,159**	**579**	**139**	**8,491**	**12,420**
Net book value						
At March 31, 2007	**1,231**	**235**	**261**	**3,093**	**135,077**	**139,897**
At March 31, 2006	442	198	240	185	142,927	143,992

Notes to the Financial Statements

15 Investment properties

	Group	
	2007	2006
	HK$'000	HK$'000
At beginning of the year	**385,000**	388,900
Disposal of subsidiaries (Note 33(b))	**–**	(3,900)
Changes in fair value	**(35,000)**	–
At end of the year	**350,000**	385,000

The Group's investment properties were revalued on an open market value basis at March 31, 2007 by Vigers Appraisal and Consulting Limited, an independent professionally qualified valuer.

Investment properties with an aggregate carrying amount of HK$350,000,000 (2006: HK$385,000,000) have been mortgaged to secure banking facilities to the extent of HK$126,800,000 (2006: HK$151,724,000) granted to the Group (Note 26).

The investment properties are located in Hong Kong and are held on leases of between 10 to 50 years.

16 Subsidiaries

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**477,068**	477,068
Less: Provision	**(310,400)**	(310,400)
	166,668	166,668
Amounts due from subsidiaries (Note a)	**1,655,483**	1,531,622
Less: Provision	**(1,385,780)**	(1,315,650)
	269,703	215,972
Amounts due to subsidiaries (Note a)	**44,740**	48,414

Notes:

(a) Except for an aggregate amount of HK$32,247,173 (2006: HK$10,167,540) due from certain subsidiaries which carries interest at 9% (2006: 9%) per annum, the balances with subsidiaries are unsecured, interest free and repayable on demand.

(b) A list of the principal subsidiaries is set out in Note 35 to the financial statements.

Notes to the Financial Statements

17 Associated companies

	Group 2007 HK$'000	2006 HK$'000
At beginning of year	–	–
Investments in associated companies – unlisted shares, at cost	8,729	–
Share of results	67	–
Amount due from associated companies (Note b)	55,827	26,431
	64,623	26,431
Less:		
Provision for amount due from associated companies (Note c)	(2,975)	(26,431)
Transferred to current assets held for sale (Note 18)	(52,402)	–
At end of the year	9,246	–

The Group's share of the aggregate amounts of the assets, liabilities and results of the associated companies are as follows:

	2007 HK$'000	2006 HK$'000
Assets		
Non-current assets	–	–
Current assets	76,545	–
Liabilities		
Current liabilities	(14,897)	–
Net assets	61,648	–
Less: associated companies classified as current assets	(52,402)	–
	9,246	–
Income	132	–
Expenses	(65)	–
Profit for the year	67	–

Notes to the Financial Statements

17 Associated companies *(Continued)*

Notes:

(a) The Group's share of net assets of the associated companies represents the Group's cost of investment plus its share of post-acquisition results and reserves in the associated companies. Under the equity method of accounting, the Group's share of losses of the associated companies is restricted to the cost of investment.

(b) The amounts due from associated companies are unsecured, interest free and repayable on demand.

(c) Provision for impairment represented the Group's share of net liabilities in the associated company.

Details of the associated companies at March 31, 2007 are as follows:

Name	Place of incorporation	Particulars of issued share capital/ registered capital	Interest Held	Principal activities
BAA Jet Management Limited	Hong Kong	1,000 share of HK$1.00 each	40.1%	Provision of charter flight services
Moral Known Investments Limited	British Virgin Islands	3 share of HK$1.00 each	33.3%	Property development & land investment
Crown Frame Properties Limited (formerly known as Crestbright Properties Ltd.)	British Virgin Islands	100 share of HK$1.00 each	30%	Property development & land investment
亞聯公務機有限公司	Peoples' Republic of China	RMB100,000,000	43%	Provision of charter flight services and aircraft management (under incorporation)
Crestbright Investments Ltd.	British Virgin Islands	100 share of HK$1.00 each	34%	Provision of environmental services
eGuanxi (Cayman) Limited	Cayman Islands	6,667,000 shares of US$1.00 each	25%	Dormant

The capital commitment contracted but not provided for in respect of further capital investment in an associated company amounted to HK$35.4 million as at March 31, 2007 (2006: HK$Nil).

18 Assets held for sale

The assets held for sale comprise the Group's interests in three associated companies, namely Moral Known Investments Ltd., Crown Frame Properties Limited (formerly known as Crestbright Properties Ltd.) and Crestbright Investments Ltd., the details of which are disclosed in note 17. Subsequent to the year end, the Group completed the disposals of the entire equity interests in these associated companies at total consideration of HK$56,120,000. Details of the disposals of Moral Known Investments Ltd. and Crown Frame Properties Limited (formerly known as Crestbright Properties Ltd.) are disclosed in note 36. The disposal of entire equity interest in Crestbright Investments Ltd. to an independent third party at consideration of HK$17.8 million was completed on 30 April 2007. The assets held for sale are stated at their carrying amounts at March 31, 2007.

19 Jointly controlled entity – Group

	2007 **HK$'000**	2006 HK$'000
Share of net liabilities	**(2)**	(3)
Amount due from jointly controlled entity	**48,569**	15,107
	48,567	15,104

The amount due from the jointly controlled entity, which is unsecured and interest free, represents the Group's equity contribution to the jointly controlled entity.

Details of the jointly controlled entity at March 31, 2007 are as follows:

Name	**Place of incorporation**	**Particulars of issued share capital**	**Interest held**	**Principal activities**
Everbest Business Limited	British Virgin Islands	2 shares of US$1.00 each	50%	Aircraft charter (not yet started its operations as at March 31, 2007)

The following is an extract of the operating results and financial position of Everbest Business Limited based on a set of unaudited accounts for the year ended March 31, 2007 prepared by management of the Group in accordance with those relevant accounting policies as set out in Note 2.

Notes to the Financial Statements

19 Jointly controlled entity – Group *(Continued)*

	Everbest Business Limited		Group's attributable interests	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Assets:				
Non-current assets				
– prepayment for purchase of aircraft	**97,087**	30,215	**48,544**	15,107
Liabilities:				
Non-current liabilities				
– shareholders' loans	**(97,087)**	(30,215)	**(48,544)**	(15,107)
Current liabilities	**(10)**	(6)	**(5)**	(3)
	(97,097)	(30,221)	**(48,549)**	(15,110)
Net liabilities	**(10)**	(6)	**(5)**	(3)
Operating results:				
Income	**–**	–	**–**	–
Expenses	**(4)**	(6)	**(2)**	(3)
Loss for the year	**(4)**	(6)	**(2)**	(3)
Capital commitments:				
Contracted but not provided for in respect of the aircraft	**145,991**	212,598	**72,995**	106,299

There are no contingent liabilities relating to the Group's interest in the jointly controlled entity and no contingent liabilities of the jointly controlled entity itself.

20 Long term receivable

In prior years, the Group acquired approximately a 3% interest in Draper Fisher Jurvetson ePlanet Ventures L.P. ("DFJ"), an unlisted limited partnership established in the United States of America principally engaged in the investments in securities.

In October 2002, the Group disposed of its entire interest in DFJ to the Draper Fisher Jurvetson ePlanet Partners, Ltd. ("General Partner") of DFJ, which is not a related party, at a consideration of approximately HK$23,663,000, or the market value of the portfolio upon the dissolution of the fund, whichever is the lower. The proceeds shall be settled not later than six months after the dissolution of DFJ, which was determined, subject to other terms in the partnership agreement of DFJ, to be in December 2009 or earlier.

The long term receivable was fully settled by the General Partner of DFJ during the year.

Notes to the Financial Statements

21 Financial assets at fair value through profit or loss

	2007 HK$'000	2006 HK$'000
Group		
Non-current assets		
Equity securities of companies listed in Hong Kong	–	42,524
Current assets		
Equity securities of companies listed in Hong Kong	125,098	27,946
Company		
Current assets		
Equity securities of a company listed in Hong Kong	26,229	27,946

22 Other asset

Other asset comprised unlisted club debentures with the rights to use the club facilities and are carried at cost less impairment loss.

23 Accounts receivable

The Group's credit terms on the provision of services mainly range from 30 to 90 days. The ageing analysis of accounts receivable of the Group is as follows:

	2007 HK$'000	2006 HK$'000
Current to 30 days	618	3,609
31 to 60 days	174	205
61 to 90 days	442	228
Over 90 days	841	433
	2,075	4,475
Denominated in:		
HK$	858	1,226
US$	1,217	3,249
	2,075	4,475

The carrying value of accounts receivable approximates their fair values due to the short term maturity.

Notes to the Financial Statements

24 Cash and cash equivalents

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank balances and cash	**59,710**	7,932	**55,923**	2,737
Time deposits	**8,000**	163,553	**–**	160,012
	67,710	171,485	**55,923**	162,749
Denominated in:				
HK$	**61,361**	171,339	**55,923**	162,749
US$	**6,349**	146	**–**	–
	67,710	171,485	**55,923**	162,749

The weighted average effective interest rate on short-term bank deposits was 2.5% (2006: 4%) per annum. The maturity days of the short-tem bank deposits was one week (2006: ranging from one week to one month). Cash at bank earns interest at floating rates based on daily bank deposit rates.

25 Accounts payable

The aging analysis of accounts payable is as follows:

	2007	2006
	HK$'000	HK$'000
Current to 30 days	**1,848**	2,520
31 to 60 days	**720**	645
61 to 90 days	**374**	890
Over 90 days	**4,941**	152
	7,883	4,207

The carrying value of accounts payable approximates their fair values due to the short term maturity and are denominated in Hong Kong dollars.

26 Short-term bank loans

The Group's short-term bank loans are denominated in HK$ and the carrying amounts of these loans approximate their fair values. The bank loans bear interest at 0.65% (2006: 1%) over the Hong Kong Interbank Offer Rate and are secured by the Group's investment properties with the carrying value amounting to HK$350 million and a corporate guarantee provided by the Company. Mr. Lo Lin Shing, Simon, a director of the Company, has also provided a personal guarantee to the bank to the extent of all outstanding interests in connection with the bank loans.

Notes to the Financial Statements

27 Convertible notes

On February 17, 2006, the Company issued 200,000,000 2.5% convertible notes at a total nominal value of HK$200 million. These convertible notes have maturity period of three years from the issue date or can be converted into 1 ordinary share of the Company of HK$0.02 each for every HK$0.18 convertible note at the holder's option.

The fair values of the liability component and the equity conversion component were determined by an independent professionally qualified valuer at the issue date of the convertible notes.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible note. The residual amount of HK$21,468,000 representing the value of the equity conversion component, is included in shareholders' equity in other reserves net of deferred income taxes.

The liability component of the convertible notes recognised in the balance sheet are calculated as follows:

	2007 HK$'000	2006 HK$'000
At beginning of the year	175,528	–
Initial recognition	–	174,032
Interest expense (Note 10)	9,374	1,496
Interest paid	(3,644)	–
Conversion during the year (Note 33(c))	(181,258)	–
At end of the year	–	175,528

During the year, the convertible notes were fully converted into ordinary shares.

Interest expense on the convertible note is calculated using the effective interest method by applying the effective interest rate of 7.3% (2006: 7.3%) to the liability component.

Notes to the Financial Statements

28 Deferred income tax liabilities

Deferred income tax is calculated in full on temporary differences under the liability method using the tax rate which is expected to apply at the time of reversal of the temporary differences.

The components of the deferred income tax account recognised in the balance sheet (prior to offsetting of balances within the same tax jurisdiction) and the movements during the year are as follows:

	Group			Company
	Investment properties	**Convertible notes**	**Total**	**Convertible notes**
	HK$'000	HK$'000	HK$'000	HK$'000
At April 1, 2005	42,934	–	42,934	–
Charged/(credited) to the income statement (Note 11)	787	(262)	525	(262)
Charged to equity (Note 30)	–	3,757	3,757	3,757
At March 31, 2006	43,721	3,495	47,216	3,495
At April 1, 2006	43,721	3,495	47,216	3,495
Credited to the income statement (Note 11)	(5,340)	–	(5,340)	–
Credited to equity (Note 30)	–	(3,495)	(3,495)	(3,495)
At March 31, 2007	38,381	–	38,381	–

The deferred income tax liabilities are to be recovered after more than 12 months.

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. At March 31, 2007, unrecognised tax losses of the Group amounted to HK$45,680,000 (2006: HK$35,891,000). No deferred tax asset has been recognised for these tax losses as it is uncertain as to whether the relevant Group companies will have sufficient future taxable profits to utilise these tax losses. These tax losses do not have an expiry date.

Notes to the Financial Statements

29 Share capital

(a) Authorised and issued share capital

	March 31, 2007 HK$'000	March 31, 2006 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.02 each	**300,000**	300,000

	Note	**Number of ordinary shares at HK$0.02 each**	**Amount** HK$'000
Issued and fully paid:			
At April 1, 2005		436,872,087	8,737
Issue of shares			
– Placing of shares	(i)	58,000,000	1,160
– Rights issue	(ii)	989,744,174	19,795
– Exercise of share options	(iv)	2,245,000	45
At March 31, 2006		1,486,861,261	29,737
At April 1, 2006		1,486,861,261	29,737
Issue of shares			
– Conversion of Convertible Notes	(iii)	1,111,111,102	22,222
– Exercise of share options	(iv)	18,390,000	368
At March 31, 2007		2,616,362,363	52,327

Notes:

(i) On May 19, 2005, the Company completed a placing of 58,000,000 shares at a subscription price of HK$0.24 per share. Accordingly, 58,000,000 shares of HK$0.02 each were issued at a premium of HK$0.22 each. The premium of HK$12,760,000 on issue of shares was credited to the share premium account. These new shares rank pari passu in all respect with the existing shares.

(ii) On February 13, 2006, the Company completed a rights issue of 989,744,174 shares at a subscription price of HK$0.15 per share. Accordingly, 989,744,174 shares of HK$0.02 each were issued at a premium of HK$0.13 each. The premium of approximately HK$128,667,000 on issue of shares was credited to the share premium account. These new shares rank pari passu in all respect with the existing shares.

(iii) During the year, convertible notes with face value of HK$200,000,000 were converted into 1,111,111,102 ordinary shares of the Company, of which HK$22,222,222 was credited to share capital and the balance was credited to the share premium account.

Notes to the Financial Statements

29 Share capital *(Continued)*

(a) Authorised and issued share capital *(Continued)*

Notes: *(Continued)*

(iv) During the year, share options to subscribe for 18,390,000 (2006: 2,245,000) shares were exercised, of which HK$368,000 (2006: HK$45,000) was credited to share capital and the balance of HK$6,716,000 (2006: HK$555,000) was credited to the share premium account.

(b) Share options

Under the share option schemes adopted by the Company on September 22, 2000 (the "Terminated Option Scheme") and August 28, 2002 (the "Existing Option Scheme"), options were granted to certain directors and employees of the Company entitling them to subscribe for shares of the Company. The Terminated Option Scheme was terminated on August 28, 2002 upon the adoption of the Existing Option Scheme.

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

	2007		2006	
	Weighted average exercise price per share HK$	Number of share options	Weighted average exercise price per share HK$	Number of share options
At beginning of the year	0.1692	15,306,420	0.2742	19,031,400
Granted	0.69	30,100,000	0.1636	828,900
Rights issue adjustment	NA	–	N/A	2,060,020
Exercised	0.2924	(18,390,000)	0.1691	(2,245,000)
Lapsed/cancelled	0.1695	(1,252,976)	0.5457	(4,368,900)
At end of the year	0.69	25,763,444	0.1692	15,306,420

Options exercised during the year ended March 31, 2007 resulted in 18,390,000 ordinary shares (2006: 2,245,000) being issued at the weighted average exercise price of HK$0.2924 (2006: HK$0.1691) each. The related weighted average share price at the time of exercise was HK$1.0797 (2006: HK$0.3121) per share.

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

Notes to the Financial Statements

29 Share capital *(Continued)*

(b) Share options *(Continued)*

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

			Number of shares subject to options	
Date of grant	**Exercise price** HK$	**Exercise period**	**2007**	2006
1-3-2005	0.1695 (Note)	1-3-2005 to 28-2-2012	**8,844**	14,617,520
15-2-2006	0.1636	15-2-2006 to 16-4-2009	**4,600**	688,900
8-2-2007	0.69	8-2-2007 to 7-2-2012	**25,750,000**	–
			25,763,444	15,306,420

Note:

The exercise price was adjusted from HK$0.1933 to HK$0.1695 pursuant to the rights issue of the Company during the year ended March 31, 2006 as set out in Note 29(a)(i).

The fair values of options granted determined using the Binomial Valuation Model were as follow:

	Date of grant of share option		
	March 1, 2005	February 15, 2006	**February 8, 2007**
Option value (at grant date)	HK$1,215,000	HK$32,000	HK$12,289,000
Option value (upon completion of the rights issue on March 9, 2005)	HK$1,919,000	N/A	N/A
Significant inputs into the valuation model:			
Exercise price (at grant date)	HK$0.29	HK$0.1636	HK$0.69
Exercise price (upon completion of the rights issue on March 9, 2005)	HK$0.1695	N/A	N/A
Share price at grant date and on March 9, 2005	HK$0.29	HK$0.162	HK$0.69
Expected volatility (Note)	70%	66%	80%
Risk-free interest rate	3.9%	4.2%	4%
Expected life of options	7 years	3.17 years	5 years
Expected dividend yield	N/A	N/A	N/A

Note:

The expected volatility is measured at the standard derivation of expected share price return and is based on statistical analysis of daily share prices over the last 6 months before the respective dates of grant.

Notes to the Financial Statements

30 Reserves

(a) Group

	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Employee share-based compensation reserves HK$'000	Exchange translation HK$'000	Retained profits HK$'000	Total HK$'000
Balance at April 1, 2005	23,159	199,594	–	191	–	20,824	243,768
Convertible notes							
– equity component	–	–	21,468	–	–	–	21,468
Deferred tax on equity component of convertible notes (Note 28)	–	–	(3,757)	–	–	–	(3,757)
Share-based compensation expenses	–	–	–	1,760	–	–	1,760
Issue of shares							
– placing of shares (Note 29(a)(i))	12,760	–	–	–	–	–	12,760
– rights issue (Note 29(a)(ii))	128,667	–	–	–	–	–	128,667
– exercise of share options (Note 29(a)(iv) and (b))	555	–	–	(221)	–	–	334
Share issue expenses	(6,285)	–	–	–	–	–	(6,285)
Lapse of share options	–	–	–	(23)	–	23	–
Currency translation difference	–	–	–	–	32	–	32
Disposal of subsidiaries	–	–	–	–	(32)	–	(32)
Loss for the year	–	–	–	–	–	(1,383)	(1,383)
Balance at March 31, 2006	158,856	199,594	17,711	1,707	–	19,464	397,332
Balance at April 1, 2006	158,856	199,594	17,711	1,707	–	19,464	397,332
Issue of shares							
– Conversion of convertible notes	180,242	–	(21,206)	–	–	–	159,036
– Reversal of deferred tax on equity component of convertible notes (Note 28)	–	–	3,495	–	–	–	3,495
– exercise of share options (Note 29(a)(iv) and (b))	6,716	–	–	(1,707)	–	–	5,009
Share-based compensation expenses	–	–	–	12,289	–	–	12,289
Profit for the year	–	–	–	–	–	11,849	11,849
Balance at March 31, 2007	345,814	199,594	–	12,289	–	31,313	589,010

Notes to the Financial Statements

30 Reserves *(Continued)*

(b) Company

	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Employee share-based compensation reserves HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at April 1, 2005	23,159	199,594	–	191	(29,756)	193,188
Convertible notes						
– equity component (Note 27)	–	–	21,468	–	–	21,468
Deferred tax on equity component of convertible notes (Note 28)	–	–	(3,757)	–	–	(3,757)
Share-based compensation expenses	–	–	–	1,760	–	1,760
Issue of shares						
– placing of shares (Note 29(a)(i))	12,760	–	–	–	–	12,760
– rights issue (Note 29(a)(ii))	128,667	–	–	–	–	128,667
– exercise of share options (Note 29(a)(iv) and (b))	555	–	–	(221)	–	334
Share issue expenses	(6,285)	–	–	–	–	(6,285)
Lapse of share options	–	–	–	(23)	23	–
Loss for the year	–	–	–	–	(34,469)	(34,469)
Balance at March 31, 2006	158,856	199,594	17,711	1,707	(64,202)	313,666
Balance at April 1, 2006	158,856	199,594	17,711	1,707	(64,202)	313,666
Issue of shares						
– Conversion of convertible notes	180,242	–	(21,206)	–	–	159,036
– Reversal of deferred tax on equity component of convertible notes (Note 28)	–	–	3,495	–	–	3,495
– exercise of share options (Note 29(a)(iv) and (b))	6,716	–	–	(1,707)	–	5,009
Share-based compensation expenses	–	–	–	12,289	–	12,289
Loss for the year	–	–	–	–	(57,648)	(57,648)
Balance at March 31, 2007	345,814	199,594	–	12,289	(121,850)	435,847

Notes to the Financial Statements

30 Reserves *(Continued)*

(b) Company *(Continued)*

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

As at March 31, 2007, the contributed surplus of the Company was HK$199,594,000 (2006: HK$199,594,000).

31 Financial guarantees

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees in respect of credit facilities granted to subsidiaries	**–**	–	**126,800**	151,724
Guarantees in respect of credit facilities granted to an associated company	**1,710**	1,710	**1,710**	1,710

The Company has given material guarantees of approximately HK$198 million in respect of bank loan facilities extended to its subsidiaries. As March 31, 2007, the amounts utilised by the subsidiaries were HK$126,800,000 (2006: HK$151,724,000). The directors consider that the subsidiaries are financially resourceful in settling the obligations.

32 Commitments

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

(a) Commitments under operating leases

At March 31, 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2007	2006
	HK$'000	HK$'000
Not later than one year	**2,142**	977
Later than one year and not later than five years	**3,389**	312
	5,531	1,289

Notes to the Financial Statements

32 Commitments *(Continued)*

(b) Future minimum rental payments receivable

The Group's operating leases are for terms of 1 to 5 years. The future minimum rental payments receivable under non-cancellable operating leases are as follows:

	2007 HK$'000	2006 HK$'000
Not later than one year	16,008	12,733
Later than one year and not later than five years	8,053	6,778
	24,061	19,511

33 Consolidated cash flow statement

(a) Reconciliation of profit/(loss) for the year to cash used in operations

	2007 HK$'000	2006 HK$'000
Profit/(loss) before income tax	7,140	(580)
Share of loss of a jointly controlled entity	2	3
Share of profit of associated companies	(67)	–
Dividend income	(20,442)	–
Interest income	(4,351)	(1,954)
Interest expense	16,145	7,430
Depreciation	8,180	1,453
Provision for amounts due from associated companies and an investee company	4,015	1,112
Share-based compensation expenses	12,289	1,760
Fair value loss on investment properties	35,000	–
Exchange gain on translation of property, plant and equipment	–	(32)
Gain on disposal of financial assets at fair value through profit or loss	(5,870)	–
Fair value (gain)/loss – financial assets at fair value through profit or loss	(40,226)	19,422
Gain on disposal of subsidiaries	(2,703)	(26,929)
Reversal of impairment losses of long term receivable	(11,179)	(7,545)
Reversal of impairment losses of a related company	(3,037)	–
Operating loss before working capital changes	(5,104)	(5,860)
Increase in accounts receivable, other receivables, prepayments and deposits, and amounts due from related companies	(45,966)	(7,113)
Increase/(decrease) in accounts payable, other payables and accruals	48,846	(1,006)
Increase in amount due from an associated company	1,483	–
Cash used in operations	(741)	(13,979)

Notes to the Financial Statements

33 Consolidated cash flow statement *(Continued)*

(b) Disposal of subsidiaries

	2007 HK$'000	2006 HK$'000
Net assets disposed of:		
Property, plant and equipment (Note 14)	956	2,642
Investment properties (Note 15)	–	3,900
Accounts receivable	2,964	3,014
Other receivables, prepayments and deposits	3,910	3,130
Bank balances and cash	7,636	10,675
Accounts payable, other payables and accruals	(18,169)	(7,886)
	(2,703)	15,475
Gain on disposal of subsidiaries	2,703	26,929
	–	42,404
Satisfied by:		
Sales consideration settled in cash (2006: in shares)	–	42,404
Cash outflow on disposal of subsidiaries	7,635	10,675

During the year, Business Aviation Asia Limited, an indirect wholly owned subsidiary of the Company, disposed of its 59.9% interest in the issued share capital of BAA Jet Management Limited to an independent party at consideration of HK$599.

Notes to the Financial Statements

33 Consolidated cash flow statement *(Continued)*

(c) Analysis of changes in financing during the year

	Share capital (including share premium) HK$'000	Short term loans HK$'000	Convertible notes HK$'000	Minority interests HK$'000	Restricted bank balances HK$'000	Total HK$'000
Balance at March 31, 2005	31,896	183,202	–	65	(540)	214,623
Net cash inflow/(outflow) from financing	156,476	(31,478)	195,500	–	540	321,038
Equity component transferred to other reserve	–	–	(21,468)	–	–	(21,468)
Interest expense on convertible notes	–	–	1,496	–	–	1,496
Exercise of share options	221	–	–	–	–	221
Minority interests' share of losses	–	–	–	(8)	–	(8)
Balance at March 31, 2006	188,593	151,724	175,528	57	–	515,902
Net cash inflow/(outflow) from financing	5,377	(24,924)	–	–	–	(19,547)
Interest expense on convertible notes	–	–	9,374	–	–	9,374
Interest paid on convertible notes	–	–	(3,644)	–	–	(3,644)
Conversion of convertible notes	181,258	–	(181,258)	–	–	–
Transferred from equity component of convertible notes	21,206	–	–	–	–	21,206
Transferred from employee share-based compensation reserves	1,707	–	–	–	–	1,707
Balance at March 31, 2007	398,141	126,800	–	57	–	524,998

Notes to the Financial Statements

34 Related party transactions

Golden Infinity Co., Ltd. ("Golden Infinity"), a company incorporated in the British Virgin Islands with limited liability which owns 14.33% of the Company's shares as at March 31, 2007, is the single largest shareholder of the Company. The remaining 85.67% of the shares are widely held. Golden Infinity is wholly owned by Mr. Lo Lin Shing, Simon ("Mr. Lo"), the chairman and an executive director of the Group.

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

(a) Sales of services

	Note	**2007 HK$'000**	2006 HK$'000
Associated companies:			
– Technical service fee charged to a subsidiary of Asia V-Sat Co., Ltd. ("AVSAT"), an associated company	(i)	**–**	603
Related companies:			
– Reimbursement of rental and office administrative expenses from a subsidiary of International Entertainment Corporation Limited ("IEC")	(ii)	**501**	487
– Interest income from certain subsidiaries of IEC	(iii)	**–**	482

Notes:

(i) Technical service fee was charged to a subsidiary of AVSAT for the provision of project management services and technical consultancy services in connection of the call centre operations, which is based on 50% of the contract amounts entered into between the associated company and the external customers at mutually agreed terms. The amounts had been included in the results of discontinued operations under HKFRS 5.

(ii) The reimbursement of rental expenses from a subsidiary of IEC, a company of which Mr. Lo, the chairman and an executive director of the Group, is also an executive director, for sharing the Group's office premises and utilities were calculated in proportion to the office space occupied. Administrative expenses were charged on actual incurred basis taking into account the headcount and/or office space occupied.

(iii) The interest income was charged on loans granted on certain subsidiaries of IEC at mutually agreed terms.

Notes to the Financial Statements

34 Related party transactions *(Continued)*

(b) Purchases of services

	Note	2007 HK$'000	2006 HK$'000
Related companies:			
Professional fee paid to Taifook Capital Limited ("TFCL")	(i)	1,127	703
Commission paid to Taifook Secuities Company Limited ("TFSCL")	(ii)	–	4,500
Underwriting commission paid to Golden Infinity	(iii)	–	2,057

Notes:

(i) Professional fee was paid to TFCL, a subsidiary of Taifook Securities Group Limited ("TFSGL"), a company of which Mr. Lo is also the deputy chairman and a substantial shareholder. The professional fee was charged at mutually agreed terms.

(ii) Placing agent commission on convertible notes was paid to TFSCL, a subsidiary of TFSGL. The commission was charged at mutually agreed terms.

(iii) Underwriting commissions were paid to Golden Infinity, a company wholly owned by Mr. Lo, in connection with the Company's rights issues based on mutually agreed terms.

(c) Key management compensations

	2007 HK$'000	2006 HK$'000
Basic salaries, other allowances and benefits in kind	2,629	4,376
Discretionary bonus	–	394
Share option benefits	10,207	568
Contributions to pension schemes	12	91
	12,848	5,429

Notes to the Financial Statements

34 Related party transactions *(Continued)*

(d) Year-end balances arising from sales/purchases of goods/services

	Note	2007 HK$'000	2006 HK$'000
Receivables from related companies:			
– Amount due from Cyber On-Air (Asia) Limited	(i)	–	7,000
– Amount due from Anbo Global Company Limited	(i)	–	1,000
– Amount due from Cyber On-Air Limited	(i)	–	500
– Others		445	217
		445	8,717
Advances to associated companies:			
– Certain subsidiaries of AVSAT	(ii)	–	509
– BAA Jet Management Limited	(iii)	6,015	–
– Moral Known Investments Limited	(iv)	18,333	–
– Crown Frame Properties Limited	(iv)	16,500	–
– Crestbright Investments Ltd.	(v)	17,500	–

Notes:

(i) Cyber On-Air (Asia) Limited, Anbo Global Company Limited and Cyber On-Air Limited are wholly owned subsidiaries of IEC, a company of which Mr. Lo is also an executive director. The loans were secured by a corporate guarantee from IEC and bore interest at commercial rates. The loans were fully settled during the year. Others represented reimbursement of rental and administration expenses due from a subsidiary of IEC.

(ii) Advances to certain subsidiaries of AVSAT were made for working capital purposes. The amounts are unsecured, interest free and repayable on demand.

(iii) Advances to BAA Jet Management Limited were made for working capital purposes.

(iv) Advances to Moral Known Investments Limited and Crown Frame Properties Limited (formerly known as Crestbright Properties Ltd.) were made for capital injections in property development projects in Mainland China.

(v) Advances to Crestbright Investments Ltd. were made for capital injection in environmental projects in Mainland China.

Notes to the Financial Statements

35 Particulars of principal subsidiaries

Details of the Group's principal subsidiaries at March 31, 2007:

Name	Place of incorporation	Particulars of issued share capital	Effective interest held	Principal activities
Beaubourg Holdings Inc.	British Virgin Islands	1 share of US$1.00	100%	Investment holding
Business Aviation Asia Limited	Hong Kong	1 share of HK$1.00	100%	Investment holding
* Cyber Network Technology Limited	British Virgin Islands	1 share of US$1.00	100%	Investment holding
* Gamerian Limited	British Virgin Islands	1 share of US$1.00	100%	Investment holding
Glory Key Investments Ltd	British Virgin Islands	1 share of US$1.00	100%	Investment holding
Jadesails Investments Limited	Hong Kong	10,000 shares of HK$1.00 each	100%	Property investment
* Mongolia Energy Corporation (Greater China) Ltd (formerly known as New World CyberBase (Greater China) Limited)	Hong Kong	2 shares of HK$1.00 each	100%	Management services
* Mongolia Energy Corporation Services Limited (formerly known as New World CyberBase Services Limited)	Hong Kong	2 shares of HK$1.00 each	100%	Provision of secretarial and nominee services
Quinway Company Limited	Hong Kong	10,000 shares of HK$1.00 each	100%	Property investment

* Subsidiaries directly held by the Company.

Notes to the Financial Statements

36 Subsequent events

(a) Pursuant to special resolutions passed at a special general meeting held on April 18, 2007, the following transactions (the "Transactions") were approved by the shareholders of the Company:

(i) proposed very substantial acquisition of a coal mine in western Mongolia by a subsidiary of the Company, which is to be settled by (a) the issue of 1,125,000,000 new shares of the Company; (b) convertible bond of HK$142.5 million of the Company; and (c) loan note of HK$787.5 million of the Company;

(ii) proposed subscriptions of 1,180,000,000 new shares; and

(iii) proposed placing of 1,100,000,000 new shares.

The Transactions are subject to fulfillments of certain conditions and therefore, have not been completed as at the date when these financial statements are approved for issue by the Directors.

(b) On May 30, 2007, the Company announced that on May 29, 2007, a subsidiary of the Company has entered into an acquisition agreement ("Further Agreement") to acquire further mine areas in western Mongolia with coal resources estimated between 1 to 2 billion tonnes along with other ferrous and non-ferrous resources subject to exploration for eventual commercial exploitation. The proposed acquisition has been communicated to shareholders in a circular dated June 25, 2007 for shareholders' approval.

(c) On May 31, 2007, the Group completed the disposals of equity interests in and assignments of shareholders' loan to Modern Sparkles Investment Ltd. and Peak Elite Holdings Corp. which were wholly owned subsidiaries of the Company as at March 31, 2007, to Mr. Lo. Modern Sparkles Investment Ltd. and Peak Elite Holdings Corp. hold equity interests in associated companies, Crown Frame Properties Limited (formerly known as Crestbright Properties Ltd.) and Moral Known Investments Limited which, in turn hold equity interests in sino-foreign joint venture enterprises which hold two pieces of land located at Hangzhou, Mainland China.

(d) On May 23, 2007 and June 13, 2007 respectively, the Company announced the disposals of 12,320,000 shares in New World Mobile Holdings Limited at open market value.

(e) On June 29, 2007, the Company entered into construction agreement with independent third party for the construction and setting up of facilities for commercial exploitation in the coal mine at consideration of RMB39.9 million.

Summary of Results, Assets and Liabilities

Results of the Group for the year ended 31 March

	2003 HK$'000	2004 HK$'000	2005 HK$'000 (Restated)	2006 HK$'000	**2007** **HK$'000**
Turnover	36,183	29,650	18,776	24,052	**39,773**
Profit/(loss) attributable to Shareholders	(44,666)	(26,207)	9,100	(1,383)	**11,849**
Earnings/(loss) per share (HK cents) (Note 1)					
– Basic	(15.00)	(9.00)	3.11	(0.25)	**0.62**
– Diluted	N/A	N/A	3.11	(0.02)	**1.1**

Assets and liabilities of the Group at 31 March

	2003 HK$'000	2004 HK$'000	2005 HK$'000 (Restated)	2006 HK$'000	**2007** **HK$'000**
Total assets	423,623	416,628	477,794	818,114	**843,079**
Less: Total liabilities	(169,528)	(188,740)	(251,548)	(390,988)	**(201,685)**
Total net assets	254,095	227,888	226,246	427,126	**641,394**

Notes:

(1) As a result of the rights issue in the year 2006, figures for the years from 2003 to 2005 have been adjusted for comparison purpose.

(2) The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Figures for the year 2005 have been adjusted for these new and revised policies in accordance with the transitional provisions as disclosed in note 2 to the 2006 financial statements. However, it is not practicable to restate the financial statements for the years ended 31 March 2003 and 2004 for comparison purposes.

Schedule of Principal Properties

Investment properties

Location	Purpose	Term of lease	Group Interest %
Basement and Ground Floor Bank of America Tower No. 12 Harcourt Road Central Hong Kong	Commercial	Medium term	100