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# MONGOLIA ENERGY CORPORATION LIMITED

# 蒙古能源有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 276)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED MARCH 31, 2010

The directors (the "Directors") of Mongolia Energy Corporation Limited (the "Company") announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended March 31, 2010 together with the comparative figures in the previous year as follows:

## CONSOLIDATED INCOME STATEMENT

*For the year ended March 31, 2010*

| | *Notes* | **2010** *HK$'000* | 2009 *HK$'000* |
|---|---|---|---|
| **Continuing operation** | | | |
| Revenue – coal mining | *3* | **–** | – |
| Other income | *3* | **–** | 9,076 |
| Interest income | | **2,274** | 18,980 |
| Staff costs | | **(63,235)** | (46,903) |
| Depreciation | | **(24,177)** | (17,466) |
| Other expenses | | **(96,936)** | (77,947) |
| Finance costs | *4* | **(91,556)** | (171,877) |
| Fair value loss on investment properties | | **(10,689)** | (16,062) |
| Fair value gain (loss) from held-for-trading investments | | **72,814** | (24,039) |
| Impairment losses on interests in and loans to associates | | **(2,457)** | (56,766) |
| Impairment loss on available-for-sale financial asset | | **(3,024)** | – |
| Share of losses of associates | | **(31,535)** | (3,170) |
| Loss on early redemption of loan note | | **–** | (100,371) |
| Loss before taxation | *5* | **(248,521)** | (486,545) |
| Income tax credit | *6* | **–** | 66,506 |
| Loss for the year from continuing operation | | **(248,521)** | (420,039) |
| **Discontinued operation** | | | |
| Loss for the year from discontinued operation | *7* | **(68,884)** | (18,348) |
| **Loss for the year** | | **(317,405)** | (438,387) |

* *For identification purposes only*

| | Notes | **2010** | 2009 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Loss for the year attributable to owners of the Company** | | **(317,405)** | (438,387) |
| **Loss per share** | *8* | | |
| From continuing and discontinued operations | | | |
| – basic (HK cents) | | **(5.22)** | (7.25) |
| – diluted (HK cents) | | **(5.22)** | (7.25) |
| From continuing operation | | | |
| – basic (HK cents) | | **(4.08)** | (6.95) |
| – diluted (HK cents) | | **(4.08)** | (6.95) |
| From discontinued operation | | | |
| – basic (HK cents) | | **(1.14)** | (0.30) |
| – diluted (HK cents) | | **(1.14)** | (0.30) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended March 31, 2010*

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss for the year | **(317,405)** | (438,387) |
| Other comprehensive income (expense) | | |
| Exchange difference arising on translation | **31,025** | (63,352) |
| Total comprehensive expense for the year | **(286,380)** | (501,739) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At March 31, 2010*

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **94,314** | 224,456 |
| Investment property | | **94,278** | 104,046 |
| Intangible assets | | **877** | 809 |
| Development in progress | | **1,090,494** | 738,941 |
| Exploration and evaluation assets | 9 | **13,189,727** | 12,758,720 |
| Interests in associates | | **41,599** | 67,678 |
| Available-for-sale financial asset | | **–** | – |
| Other assets | | **1,150** | 1,150 |
| Loan note receivable | 10 | **37,667** | – |
| Prepayments for exploration and evaluation expenditure | | **22,042** | 54,050 |
| Deposits for property, plant and equipment and other long-term deposits | | **63,556** | 170,527 |
| Amount due from an associate | | **200,000** | 200,000 |
| | | **14,835,704** | 14,320,377 |
| **Current assets** | | | |
| Other receivables, prepayments and deposits | | **164,094** | 31,986 |
| Held-for-trading investments | | **45,207** | 28,742 |
| Amounts due from associates | | **3,654** | 5,275 |
| Cash and cash equivalents | | **121,299** | 660,889 |
| | | **334,254** | 726,892 |
| **Current liabilities** | | | |
| Accounts payable | 11 | **8,110** | 1,049 |
| Other payables and accruals | | **49,244** | 18,482 |
| Convertible note | 12 | **140,232** | – |
| Loan note | | **112,969** | – |
| Amount due to an associate | | **624** | 5,510 |
| Tax payable | | **–** | 5,301 |
| | | **311,179** | 30,342 |
| **Net current assets** | | **23,075** | 696,550 |
| **Total assets less current liabilities** | | **14,858,779** | 15,016,927 |
| **Non-current liabilities** | | | |
| Convertible notes | 12 | **1,709,801** | 1,647,166 |
| Loan note | | **–** | 110,468 |
| | | **1,709,801** | 1,757,634 |
| **Net assets** | | **13,148,978** | 13,259,293 |

| | **2010** | 2009 |
| --- | --- | --- |
| | ***HK$'000*** | *HK$'000* |
| **Capital and reserves** | | |
| Share capital | **122,058** | 120,964 |
| Reserves | **13,026,863** | 13,138,272 |
| **Equity attributable to the owners of the Company** | **13,148,921** | 13,259,236 |
| **Minority interests** | **57** | 57 |
| **Total equity** | **13,148,978** | 13,259,293 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

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

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

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

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by HKICPA:

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC)-Int 18 | Transfers of Assets from Customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after July 1, 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

In addition, in the current year, the Group has elected to early adopt the amendment to HKFRS 5 as part of Improvements to HKFRSs 2009 (adopted in advance of effective date January 1, 2010).

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

**New and revised HKFRSs affecting presentation and disclosure only**

***HKAS 1 (Revised 2007) Presentation of Financial Statements***

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

***HKFRS 8 Operating Segments***

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's operating segments (see Note 3) but no changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

In the past, the Group's primary reporting format was business segments by location of assets. The application of HKFRS 8 has resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with the predecessor standard (HKAS 14, Segment Reporting).

***Improving Disclosures about Financial Instruments***
***(Amendments to HKFRS 7 Financial Instruments: Disclosures)***

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

***Early adoption of amendment to HKFRS 5 as part of Improvements to HKFRSs 2009***

The amendment has clarified that HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operation* has specified the disclosure required in respect of disposal groups classified as discontinued operations. Disclosure requirements in other HKFRSs do not generally apply to such disposal groups.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective:

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009, except for HKFRS 5[2] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[4] |
| HKAS 24 (Revised) | Related Party Disclosures[7] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Rights Issues[5] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[3] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[3] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[8] |
| HK(IFRIC)-Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[7] |
| HK(IFRIC)-Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC)-Int 19 | Extinguishing Financial Liabilities with Equity Instruments[6] |

1 Effective for annual periods beginning on or after July 1, 2009
2 Amendments that are effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate
3 Effective for annual periods beginning on or after January 1, 2010
4 Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate
5 Effective for annual periods beginning on or after February 1, 2010
6 Effective for annual periods beginning on or after July 1, 2010
7 Effective for annual periods beginning on or after January 1, 2011
8 Effective for annual periods beginning on or after January 1, 2013

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition date is on or after April 1, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective to the Group from April 1, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Group anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

## 3. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

An analysis of the Group's revenue and other income for the year is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operation** | | |
| Revenue – coal mining | **–** | – |
| Other income | | |
| Rental income from investment properties | **–** | 7,788 |
| Management fee income from investment properties | **–** | 1,288 |
| | **–** | 9,076 |

The Group has adopted HKFRS 8 Operating Segments with effect from April 1, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the Board of Directors of the Company) for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. As a result, following the adoption of HKFRS 8, the Group's operating segments have changed.

In prior years, segment information reported externally was analysed on three operating divisions (i.e. coal mining, charter flight services and property investments). However, information reported to the Group's Board of Directors for the purposes of resource allocation and assessment of performance focuses on the coal mining and charter flight services segment. Information relating to property investment and iron ore exploration concession is not included in the internal report regularly reviewed by the Board of Directors of the Company.

The provision of charter flight services was discontinued with effect from March 1, 2010. The total segment revenue derived from the continuing and the discontinued operations is HK$2,392,000 (2009: HK$2,005,000) and total segment loss derived from the continuing and the discontinued operations is HK$135,776,000 (2009: HK$63,531,000).

**Segment revenue and results**

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

***For the year ended March 31, 2010***

*Continuing operation*

| | **Coal mining** *HK$'000* | **Total** *HK$'000* |
|---|---|---|
| Segment revenue | **–** | **–** |
| Segment loss | **(71,692)** | **(71,692)** |
| Unallocated expenses *(Note)* | | **(112,656)** |
| Bank interest income | | **2,274** |
| Finance costs | | **(91,556)** |
| Fair value loss on investment property | | **(10,689)** |
| Fair value gain from held-for-trading investments | | **72,814** |
| Impairment losses on interests in and loans to associates | | **(2,457)** |
| Impairment losses on available-for-sale financial asset | | **(3,024)** |
| Share of losses of associates | | **(31,535)** |
| Loss before taxation | | **(248,521)** |

***For the year ended March 31, 2009***

*Continuing operation*

| | Coal mining *HK$'000* | Total *HK$'000* |
|---|---|---|
| Segment revenue | – | – |
| Segment loss | (45,183) | (45,183) |
| Unallocated expenses *(Note)* | | (97,133) |
| Rental and management fee income | | 9,076 |
| Bank interest income | | 18,980 |
| Finance costs | | (171,877) |
| Fair value loss on investment property | | (16,062) |
| Fair value loss from held-for-trading investments | | (24,039) |
| Impairment losses on interests in and loans to associates | | (56,766) |
| Share of losses of associates | | (3,170) |
| Loss on early redemption of loan note | | (100,371) |
| Loss before taxation | | (486,545) |

*Note:*

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3 of consolidated financial statements set out in the annual report. Segment loss represents the loss from the coal mining operation without allocation of expenses not directly relates to operating segments, rental and management fee income, bank interest income, loss on early redemption of loan note, charge in fair value of investment property, impairment losses on interests in and loans to associates, impairment loss on available-for-sale financial asset, fair value gain (loss) from held-for-trading investments, finance cost and share of losses of associates. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and performance assessment.

**Segment assets and liabilities**

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

***For the year ended March 31, 2010***

| | ***HK$'000*** |
|---|---|
| ASSETS | |
| Segment assets – coal mining | **14,222,174** |
| Investment property | **94,278** |
| Held-for-trading investments | **45,207** |
| Loan note receivable | **37,667** |
| Interests in associates | **41,599** |
| Amounts due from associates | **203,654** |
| Cash and cash equivalents | **84,770** |
| Other unallocated assets *(Note)* | **440,609** |
| Consolidated total assets | **15,169,958** |
| LIABILITIES | |
| Segment liabilities – coal mining | **7,630** |
| Convertible notes | **1,850,033** |
| Loan note | **112,969** |
| Other unallocated liabilities | **50,348** |
| Consolidated total liabilities | **2,020,980** |

***For the year ended March 31, 2009***

| | Total<br>*HK$'000* |
|---|---|
| ASSETS | |
| Segment assets – coal mining | 13,675,699 |
| Segment assets – charter flight services | 267,881 |
| | 13,943,580 |
| Investment property | 104,046 |
| Held-for-trading investments | 28,742 |
| Interests in associates | 67,678 |
| Amounts due from associates | 205,275 |
| Cash and cash equivalents | 651,728 |
| Other unallocated assets *(Note)* | 46,220 |
| Consolidated total assets | 15,047,269 |
| LIABILITIES | |
| Segment liabilities – coal mining | 12,291 |
| Segment liabilities – charter fight services | 6,773 |
| | 19,064 |
| Tax payable | 5,301 |
| Convertible notes | 1,647,166 |
| Loan note | 110,468 |
| Other unallocated liabilities | 5,977 |
| Consolidated total liabilities | 1,787,976 |

*Note:* Other unallocated assets mainly represent exploration right for iron ore, property, plant and equipment, deposit for property, plant and equipment and other long term deposits not for coal mining and other receivables, prepayments and deposits.

**Other segment information**

***For the year ended March 31***

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

*Continuing operation – coal mining*

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital additions *(Note)* | **491,172** | 873,692 |
| Depreciation of property, plant and equipment | **15,975** | 11,014 |

*Note:* Capital additions to property, plant and equipment, development in progress, exploration and evaluation assets and intangible assets.

**Geographical information**

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

The Group's information about its non-current assets in relation to continuing operation by geographical location of the assets are detailed below:

| | **Non-current assets** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **13,628** | 123,871 |
| Mongolia | **14,431,643** | 13,683,881 |
| Mainland China | **152,766** | 188,628 |
| | **14,598,037** | 13,996,380 |

*Note:* Non-current assets excluded those relating to the discontinued operation and financial instruments.

## 4. FINANCE COSTS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Continuing operation | | |
| Interest on borrowings wholly repayable within five years: | | |
| Interest expense: | | |
| – convertible notes *(Note 12)* | **202,867** | 187,234 |
| – loan note | **2,501** | 32,913 |
| – bank loans | **–** | 772 |
| Less: Interest expense capitalised *(Note)* | **(113,812)** | (49,042) |
| | **91,556** | 171,877 |

*Note:* Borrowing costs capitalised during the year represented a portion of the interest expense on the zero coupon convertible note and were calculated by applying a capitalization rate of 14.07% (2009: 14.22%) per annum to expenditure on road construction which is a qualifying asset.

## 5. LOSS BEFORE TAXATION

| | 2010<br>*HK$'000* | 2009<br>*HK$'000* |
|---|---|---|
| Continuing operation | | |
| Loss before taxation has been arrived at after charging: | | |
| Directors' remuneration | **3,215** | 3,135 |
| Other staff costs: | | |
| Salaries and other benefits | **58,878** | 43,246 |
| Retirement benefits scheme contributions (excluding directors' contributions) | **1,142** | 522 |
| Total staff costs | **63,235** | 46,903 |
| Auditor's remuneration | **2,006** | 2,268 |
| Amortisation on software (included in other expenses) | **423** | 224 |
| Depreciation of property, plant and equipment | **24,177** | 17,466 |
| Direct operating expenses arising from investment properties that generate rental income | **–** | 2,204 |
| Direct operating expenses arising from investment property that do not generate rental income | **11** | – |
| Net exchange losses (included in other expenses) | **443** | 344 |
| Operating lease rental in respect of office premises | **14,813** | 12,411 |
| Write off of property, plant and equipment | **–** | 836 |
| Write off of prepayments for exploration and evaluation expenditure | **3,174** | – |

## 6. INCOME TAX CREDIT

The amount of tax credited to the consolidated income statement represents:

| | 2010<br>*HK$'000* | 2009<br>*HK$'000* |
|---|---|---|
| **Continuing operation** | | |
| Current income tax at Hong Kong tax rate of 16.5% | **–** | 6,014 |
| Overprovision for Hong Kong profits tax in prior year | **–** | (107) |
| | **–** | 5,907 |
| Deferred tax: | | |
| – Current year | **–** | (68,278) |
| – Attributable to a change in tax rate | **–** | (4,135) |
| | **–** | (72,413) |
| Income tax credit | **–** | (66,506) |

On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced the corporate profits tax rate from 17.5% to 16.5% which was effective from the year of assessment 2008/09. Hong Kong profits tax is calculated at 16.5% at the estimated assessable profit (if any) for both years.

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

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

## 7. DISCONTINUED OPERATION

On December 9, 2009, the Company entered into a sale and purchase agreement with Vision Values Holdings Limited ("VVH") to dispose of its entire interest in Glory Key Investments Limited ("Glory Key"), an indirect wholly owned subsidiary of the Company at a consideration of HK$96 million subject to change if there were net liabilities of Glory Key at the completion date. Mr. Lo Lin Shing, Simon ("Mr. Lo"), a director of the Company, is also a director and controlling shareholder of VVH. The consideration was satisfied by (i) cash of HK$48,694,000 (HK$50,000,000 net of change in net liabilities of Glory Key amounting to HK$1,306,000) and (ii) a loan note issued by VVH of HK$46,000,000 at 4% interest per annum with option entitled to issuer to redeem the loan note before maturity. The principal asset of Glory Key is a Gulfstream G200 aircraft and Glory Key engaged in the provision of charter flight services. The disposal was effected for the Group to focus its resources on its mining business. The disposal was completed on March 1, 2010, on which date control of Glory Key Investments Limited passed to VVH.

The loss for the year from the discontinued operation is analysed as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss on charter flight service operation for the year | **64,084** | 18,348 |
| Loss on disposal of charter flight service operation | **4,800** | – |
| | **68,884** | 18,348 |

The loss on charter flight service operation for the year is analysed as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue | **2,392** | 2,005 |
| Direct aviation costs | **(870)** | (1,430) |
| Bank interest income | **–** | 92 |
| Depreciation | **(7,857)** | (7,178) |
| Impairment loss on aircraft | **(24,333)** | – |
| Impairment loss on deposit paid for acquisition of aircraft *(Note)* | **(23,649)** | – |
| Other expenses | **(9,767)** | (11,837) |
| | **(64,084)** | (18,348) |

*Note:* After the completion of the disposal of Glory Key, the management began to look for alternatives to terminate the contract for the acquisition of the Falcon 900EX aircraft, which had a contract value amounting to approximately HK$295,620,000. Onfield Group Limited, a wholly owned subsidiary of the Company, had already paid a total of approximately HK$147,804,000 to the seller pursuant to the aircraft acquisition agreement up to March 1, 2010. Based on the contract terms, management estimated that the termination cost would be 8% of the contract amount and hence an impairment loss of HK$23,649,000 was recognised against the deposit and the remaining deposit amounting approximately HK$124,155,000 were included in other receivables, prepayment and deposit as at March 31, 2010.

On May 12, 2010, Onfield Group Limited received formal notice of termination of this acquisition from the seller. The liquidated damages amounting to HK$23,649,000 were forfeited by the seller and the remaining deposit was refunded and received in full on May 25, 2010.

## 8. LOSS PER SHARE

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss attributable to the owners of the Company, as used in the calculation of basic and diluted loss per share | | |
| Loss from continuing and and discontinued operations | **(317,405)** | (438,387) |
| Loss from continuing operation | **(248,521)** | (420,039) |
| Loss from discontinued operation | **(68,884)** | (18,348) |

| | **2010** | 2009 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares in issue for calculation of basic and diluted loss per share | **6,085,327** | 6,048,066 |

*Note:* The diluted loss per share is the same as basic loss per share presented as there was no dilutive effect from the assumed exercise of share options and conversion of the Company's outstanding convertible notes on the loss attributable to owners of the Company.

## 9. EXPLORATION AND EVALUATION ASSETS

| | **Mining and Exploration Rights** *(Note d)* | **Others** *(Note c)* | **Total** |
|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| COST | | | |
| At April 1, 2008 | 12,560,873 | 151,355 | 12,712,228 |
| Acquisition *(Note a)* | – | – | – |
| Additions | – | 99,046 | 99,046 |
| Exchange adjustments | (48,687) | (3,867) | (52,554) |
| At March 31, 2009 and April 1, 2009 | 12,512,186 | 246,534 | 12,758,720 |
| Acquisition *(Note b)* | **285,676** | **–** | **285,676** |
| Additions | **–** | **121,598** | **121,598** |
| Exchange adjustments | **23,733** | **–** | **23,733** |
| At March 31, 2010 | **12,821,595** | **368,132** | **13,189,727** |

*Notes:*

(a) On May 5, 2008, the Group entered into an agreement to acquire the mining and exploration rights for 263,008 hectares in western Mongolia for coal, ferrous and non-ferrous metals resources (the "2008 Acquisition"). The agreement was concluded with Shine Ocean International Limited ("SOIL"), a company which is beneficially owned by Mr. Liu, a substantial shareholder of the Company. The rights were initially acquired for a consideration of US$1.

In addition, for both the acquisition of exploration rights for 32,000 hectares of a coal mine in Khovd Province in Mongolia on May 29, 2007 by the Group from SOIL (the "2007 Acquisition") and the 2008 Acquisition, the Group has agreed to pay SOIL, within 30 days after the exploration for the coal resources, ferrous resources and non-ferrous resources (the "Resources"), a resources fee as follows:

(i) Coal resources fees: HK$2.00 per tonne for the coal resources by way of a loan note (with a 3% per annum coupon rate and 5-year maturity) as deferred payment;

(ii) Ferrous resources fees: 0.5% of the prevailing international market prices for the relevant ferrous metals of the qualities and types by way of a loan note (with a 3% per annum coupon rate and 5-year maturity) as deferred payment; and

(iii) Non-ferrous resources fees: 0.5% of the prevailing international market prices for the relevant non-ferrous metals of the qualities and types by way of a loan note (with a 3% per annum coupon rate and 5-year maturity) as deferred payment.

The exploration of the acquired areas for the 2007 Acquisition and the 2008 Acquisition is at the sole and absolute discretion of the Group and no minimum conditions for the exploration has been set by SOIL.

As the fees payable for the Resources cannot be determined until completion of exploration, accordingly, only US$1 each for the 2007 Acquisition and the 2008 Acquisition, was recorded in exploration and evaluation assets. The fee payable will be recognised when a reliable measurement of the Resources can be obtained. At March 31, 2010, none of the conditions were fulfilled for the issuance of the loan note.

(b) On July 10, 2009, the Group entered into an acquisition agreement with Lenton Capital Management Limited for the acquisition of the entire interest in Millennium Hong Kong Group Limited and its subsidiary Zvezdametrika LLC ("Z LLC"), a company incorporated in Mongolia (collectively referred to as the "Millennium Group"). The Mongolian subsidiary owns an exploration concession of around 2,986 hectares in western Mongolia for ferrous resources. The consideration was satisfied by: (1) US$10,000,000 (approximately HK$77,540,000) in cash; (2) 54,577,465 new shares of the Company at an issue price of HK$3.1, represented the market price of the Company's shares at July 27, 2009; and (3) the remaining consideration of US$5,000,000 (approximately HK$39,000,000) in cash which to be payable conditional to the issuance of a mining licence for the concession area and was included in the other payables and accruals as at March 31, 2010. The total consideration for this amounted to HK$285,730,000 and the acquisition was completed on July 27, 2009. At the acquisition date, the Millennium Group was holding cash of HK$55,000 and exploration concession. The acquisition was considered as an assets acquisition and the Group identified and recognized the individual identifiable assets and liabilities being acquired and allocated the cost of the group of assets and liabilities to the individual identifiable assets and liabilities on the basis of their fair values at the date of completion. As limited exploration work has been done, the directors of the Company are of the opinion that the fair value of exploration concession acquired cannot be measured reliably, the fair value of the consideration paid, including cash consideration and cost of shares issued, determined in accordance with HKFRS 2 "Share-based Payments" were used to account for the costs of the exploration concession. In this regard, the amount represents the total consideration less fair value of cash and bank balances of the Millennium Group acquired at the completion date. The net cash outflow of the acquisition was HK$77,485,000.

On July 16, 2009, the Parliament of Mongolia enacted the Mining Prohibition Law (the "MPL") which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas and areas adjacent to rivers and lakes (the "defined prohibited areas"). Pursuant to the MPL the Mongolian government was supposed to define the boundaries of the relevant prohibited areas by October 16, 2009 but it had not done so by the prescribed time. It also states that any previously granted licenses that overlap the defined prohibited areas will be terminated within five months following the enactment of the law. However, the deadline stipulated in the MPL has expired but no existing licenses have been revoked under the MPL.

The MPL further states that affected license holders shall be compensated but details as to how the compensation is determined has not been specified in MPL and the Mongolian government has not yet released any further guidance on how to interpret the MPL.

Mineral Resources Authority of Mongolia (the "MRAM") has prepared a preliminary list of licences (subject to the Mongolian government's final approval) that overlap with the defined prohibited areas under the MPL. The Group's iron ore exploration concession might be affected by the MPL under the preliminary list. Z LLC, a subsidiary of the Group which owns the iron ore exploration concession, received a notice from the MRAM about the potential revocation of its exploration concession under MPL and Z LLC was requested submission of the estimated compensation for termination of licenses with supporting documents. After taking the legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRAM's request as the Group does not consider the MPL, though enacted, has been implemented. The management also considers that even if the licenses were revoked due to the MPL, the Mongolian government would pay a reasonable compensation to the Group. Hence, the management concluded that there is no impairment on the corresponding exploration and evaluation assets as at March 31, 2010. The enactment of the MPL represents a significant uncertainty to the Group, which might have a significant effect on the consolidated financial statements of the Group. If the Group's iron ore exploration concession was revoked due to the MPL and the Group was paid with compensation significantly less than the consideration they paid to acquire such concession, the Group would incur a significant impairment loss on the corresponding exploration and evaluation assets.

(c) Others represent the geological and geophysical costs, drilling and exploration expenses and labour costs directly attributable to exploration activities.

(d) Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for two successive periods of 3 years each and mining licences for two successive periods of 20 years each. The Group has renewed all exploration and mining licenses before the expiry date.

(e) The management considered that the determination of commercial viability is still in progress as at March 31, 2010.

## 10. LOAN NOTE RECEIVABLE

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Addition, at fair value | **37,390** | – |
| Add: interest income accrued | **277** | – |
| | **37,667** | – |
| Analysed for reporting purposes as: | | |
| Non-current assets | **37,667** | – |

*Note:* The loan note has a face value of HK$46 million and was issued by VVH at 4% interest per annum and matures on February 28, 2012. It represents partial consideration of the disposal of the subsidiary (see note 7) during the year. The loan note has been fair valued upon initial recognition. The effective interest rate is 7.61% per annum. The issuer has an option to redeem the whole or any part of the loan note before maturity at its principle amount and accrued interest up to redemption date. At initial recognition and at the end of the reporting period, the directors of the Group considered that the fair value of this embedded derivative was immaterial.

### 11. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current to 30 days | **967** | 226 |
| 31 to 60 days | **7,141** | 82 |
| 61 to 90 days | **2** | – |
| Over 90 days | **–** | 741 |
| | **8,110** | 1,049 |

### 12. CONVERTIBLE NOTES

The movement of the liability component of the convertible notes for the year is set out below:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At beginning of the year | **1,647,166** | 114,880 |
| Initial recognition | **–** | 1,345,052 |
| Interest expense *(Note 4)* | **202,867** | 187,234 |
| At end of the year | **1,850,033** | 1,647,166 |

Analysed for reporting purposes as:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current liabilities | **140,232** | – |
| Non-current liabilities | **1,709,801** | 1,647,166 |
| At end of the year | **1,850,033** | 1,647,166 |

### 13. SUBSEQUENT EVENT

The Company entered into a subscription agreement on April 27, 2010 with Golden Infinity Co., Ltd. ("Golden Infinity") pursuant to which Golden Infinity has conditionally agreed to subscribe for 3.5% unsecured convertible note in the principal amount of HK$300 million (the "Subscription"). The convertible note has maturity period of three years from the issue date and can be converted into 1 ordinary shares of the Company at HK$0.02 each for every HK$4 convertible note (subject to adjustment). Golden Infinity is wholly and beneficially owned by Mr. Lo. The completion of Subscription is subject to fulfillment of certain conditions and shareholders' approval. The Subscription has not been completed as at the date when these consolidated financial statements are approved by the directors.

## EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

The Company's independent auditor has modified his report on the Group's consolidated financial statements for the year ended March 31, 2010, an extract of which is as follows:

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at March 31, 2010 and of the Group's loss 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.

Without qualifying our opinions, we draw attention to note 17(b)* to the consolidated financial statements. The Group owns an exploration concession of approximately HK$286 million in western Mongolia for iron ore which may be revoked as a result of the enactment of the Mining Prohibition Law (the "MPL") enacted on July 16, 2009. According to the MPL, the affected license holders, including the Group, are to be compensated but the details of the compensation are not currently available. If the Group's exploration concession is revoked due to the MPL and the compensation received by the Group is significantly less than the consideration the Group paid to acquire this concession, the Group would incur a significant impairment loss on the related exploration and evaluation assets. The ultimate outcome of this matter cannot presently be determined and no provision for an impairment, if any, that may result has been made in the consolidated financial statements."

* Being note 9(b) in this results announcement

## FINAL DIVIDEND

The directors do not recommend payment of a final dividend for the year ended March 31, 2010 (2009: Nil).

## ANNUAL GENERAL MEETING

The annual general meeting of the Company ("AGM") will be held on August 30, 2010 and the notice of 2010 AGM will be published and despatched in the manner as required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") in due course.

## MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

The Company is an energy and resources developer. Prior to 2007, the Group was principally engaged in property investments and aircraft charter. The acquisition of 34,000 hectares of concession areas in Western Mongolia in 2007 by the Group marked a new episode and commitment of the Group to become an energy and resources developer. After a series of acquisitions, the Company has enlarged its concession areas of 34,000 hectares to approximately 330,000 hectares for coal, ferrous and non-ferrous resources in Mongolia. Management is now focusing on the principal project of the Group, the Khushuut Coking Coal Project, which is within 600 hectares of the concession areas. The Group is also exploring and prospecting other concession areas for further coal, copper, gold and other resources.

## RESULTS ANALYSIS

During the financial year ended March 31, 2010 (the "Financial Year"), we continued our focus to bring the Khushuut Coking Coal Mine into mining operation and commercial production within 2010. We have already commenced the initial mining operations with the assistance of our mining contractor Leighton LLC.

**Continuing operation**

No revenue for the year as the Khushuut Coking Coal Mine was at the mine development stage during the reporting period. The other income in last year was the rental and related income from the Hong Kong investment properties which were disposed of during the year 2009.

Interest income dropped significantly to HK$2.3 million (2009: HK$19.0 million) as more cash resources were utilized in the mine development and related activities during the year.

The increase in staff costs to HK$63.2 million (2009: HK$46.9 million) was due to the growth of workforce in particular experienced managerial staff were recruited for our energy and resources business.

The finance costs dropped by 47% to HK$91.6 million (2009: HK$171.9 million). The reduction was purely due to the capitalization of borrowing costs for an amount of HK$113.8 million (2009: HK$49.0 million) directly attributable to the construction of the development in progress during the year.

Fair value gain from held-for-trading investments included an unrealized fair value gain of HK$62.7 million (2009: Loss of HK$24.0 million) from Hong Kong listed investments reflected the Hong Kong stock market rally during the year. Besides, the surge in Hong Kong stock market provided the Group with a good opportunity to realize one of its listed investments in Hong Kong with a resulting gain of HK$10.1 million (2009: Nil).

Share of losses of associates amounted to a total of HK$31.5 million (2009: HK$3.2 million), the bulk of which was attributable to 新疆凱禹源礦業有限公司 (Xinjiang Kai Yu Yuan Mining Corporation Limited) ("Kai Yu Yuan"), an associate in which the Group has an indirect interest of 25% up to March 23, 2010. Thereafter, the Group's interest in Kai Yu Yuan was reduced to 19%. According to the consolidated financial Statements of Mongolian Resources (Hong Kong) Company Limited ("MRHK"), the immediate holding company of Kai Yu Yuan, prepared under Hong Kong Financial Reporting Standards, its loss was primarily due to the recognition of pre-operating expenses on various investment projects.

**Discontinued operation**

On December 9, 2009, the Company entered into a conditional agreement with Vision Values Holdings Limited to dispose of the aircraft charter flight business for approximately HK$94.7 million. The disposal was completed on March 1, 2010. Following the disposal, the results of aircraft charter flight business was reported as a discontinued operation. Loss for the year from discontinued operation was HK$68.9 million (2009: HK$18.3 million). The loss was mainly due to the revaluation loss of the G200 aircraft during the year and impairment loss on deposit paid for acquisition of a Falcon 900EX business jet.

**Loss attributable to the equity holders of the Company**

For the current financial year, the Group recorded a loss attributable to the equity holders of the Company of HK$317.4 million (2009: HK$438.4 million). The basic and diluted loss per share (from continuing and discontinued operations) are both HK5.22 cents (2009: basic and diluted loss per share are both HK7.25 cents).

## BUSINESS REVIEW

During the Financial Year, the following acquisition and disposal were made:

(i) In July 2009, we acquired 2,986 hectares of concession in Bayan-Ulgii in Western Mongolia for iron resources. We have appointed an independent technical adviser to assess the technical and economic viability of this project.

(ii) In December 2009, the Group disposed of its entire issued share capital in Glory Key Investments Limited ("Glory Key") and the related shareholders' loan to Vision Values Holdings Limited. The principal asset of Glory Key was a Gulfstream G200 aircraft which the Group used to provide aircraft charter business.

### Development of the Khushuut Coking Coal Project

#### *Mining Contractor*

In November 2009, we selected Leighton LLC, a member of the Leighton Group, which is the world's largest mining contractor, as our mining contractor for the management and operations of the Khushuut Coking Coal Project. Leighton LLC has since mobilized and, as noted, commenced initial mining operations.

After a series of negotiations, the Group finalised the long term mining contract for 6 years with Leighton LLC in June 2010. The contract sum is estimated to be approximately AUD273 million (approximately HK$1,856.4 million) subject to adjustments on the amount of coal produced as required by us from time to time in response to mining and other market conditions. Leighton LLC will be responsible for all mining activities at the Khushuut Coking Coal Mine including loading and hauling of waste, loading and hauling of coal, drilling and blasting, mine planning, technical support and site camp management.

In the course of the development of our Khushuut Coking Coal Mine, we have entered certain engineering contracts including, amongst others, the following:

#### *Coal Processing Equipment*

We plan to produce an initial coal product that includes initial separation of coal from rock material during the first two years of commercial production before a wash plant is built. In March 2010, MoEnCo LLC, our indirect operating subsidiary in Mongolia, signed an engineering design services contract for RMB1.4 million (approximately HK$1.6 million) with China Coal Shenyang Design Institute for the engineering and design of initial coal processing equipment known as a Rotary Breaker for the Khushuut Coking Coal Project. This will provide mechanical separation of coal from rock material ability to upgrade the raw coal produced at the mine site prior to shipment to the Chinese market.

#### *Power Plant*

In April 2010, MoEnCo LLC signed another engineering design services contract with China Coal Shenyang Design Institute for the engineering and design of initial 12MW power generation facility for RMB5 million (approximately HK$5.7 million). Our plans are to provide an initial 12MW of electrical power supply for our mining operation and with potential expansion to 36MW to supply electricity to the local network. The initial 12MW design will be presented to the Mongolian government around January 2011 for approval.

### *Khushuut Road*

Road transportation is an essential part for our upcoming commercial production. The road foundation work of the 310km Khushuut Road, from the Khushuut coal mine to the border of Xinjiang was substantially completed in September 2009.

On April 9, 2010, the Group entered into the road surface pavement contract consisting principally of asphalt pavement of the roadway and construction of some service stations along the roadway of approximately 340 kilometers with an independent contractor for RMB488.2 million (approximately HK$556.5 million). The road surface pavement is expected to be completed this year to facilitate the transportation of the Khushuut coking coal upon commercial production. The paved road surface will provide improved efficiency of the trucking operations and reduce our operating and maintenance costs for the road.

## Customers

In January 2010, MEC entered a Long Term Coal Supply Agreement with the Baosteel Group, Baosteel Bayi, Xinjiang. Under this agreement, Baosteel Bayi has agreed to purchase a minimum of at least 9.6 million to 10 million tonnes through 10 years subject to the periodic delivery terms including the port of delivery, the delivery price and quantity to be agreed between the parties prior to actual coal delivery.

Apart from Baosteel Bayi, a number of potential buyers have expressed interests in purchasing our coking coal product and we shall consider expanding our customer base, where appropriate, with increased production over time.

## Other Coal and Mineral Concession Areas in Western Mongolia

Our total concession areas for coal, ferrous and non-ferrous resources in Western Mongolia were around 330,000 hectares at the end of the Financial Year. Apart from the Khushuut Coal Mine, which is 600 hectares of our concession areas, we have conducted general reconnaissance and initial explorations in some areas for potential resources in the Financial Year. We will continue the exploration and to develop plans for potential resources, such as:

- assessing the technical and economic viability of the iron ore deposit at Bayan-Ulgii in Western Mongolia

- exploring potential coal resources in the north of the existing Khushuut Coking Coal Mining Project

- developing exploration program at a copper prospect near Khushuut

- ongoing reconnaissance works for copper & gold prospects in the Gants Mod and the Govi Altai areas.

## Other Energy and Related Resources Investments

### *Oil and Gas*

We have one oil and gas project located in Southern Mongolia, 150km from the border with Erlian, Inner Mongolia, PRC with a relatively developed transport infrastructure. It is in Ergel XII of approximately 1.18 million hectares which we, as a 20% consortium member, won in an open tender for a production sharing contract with the Government of Mongolia. The project requires ratification by the Mongolian Parliament. This is also regarded as a project for our future growth opportunity.

For better allocation of our resources, we have determined not to pursue another project of 487,509 hectares in Western Mongolia which we had a 20% interest.

### *Mineral Resources*

We entered into an agreement to acquire 20% benefits relating to a multi-metals project in Xinjiang with an explored tungsten trioxide and tin resources in March 2008. As the mining licence under this project has not been obtained, we agreed to an extension for a completion to take place not later than September 30, 2010.

### *Xinjiang Investment*

We currently have 19% interest in MRHK, a Hong Kong incorporated company, which in turn owns 100% beneficial interest of Kai Yu Yuan and 新疆凱禹通物流園有限公司 (Xinjiang Kai Yu Tong Logistics Park Company Limited) ("Kai Yu Tong") respectively. The business scope of Kai Yu Yuan includes among others, to explore in coal, copper and iron resources and Kai Yu Tong is intended to engage in logistic related services. Further, MRHK has formed a joint venture company with China Coal Geology Bureau Team 129 for coal exploration in Xinjiang. MRHK has 80% interest while China Coal Geology Bureau Team 129 has the remaining 20% interest in the joint venture company.

## Private Jet Business

The Group completed the disposal of its Gulfstream G200 aircraft through the disposal of Glory Key in March 2010. Prior to commercial production of the Khushuut Coking Coal Project, aircraft charter was the only source of revenue to the Group. As the Group is principally focused on its energy and related resources business, the private jet charter was considered a residual business to the Group. In May 2010, the Group terminated the acquisition of a new Falcon 900EX aircraft.

## FINANCIAL REVIEW

### 1. Liquidity and financial resources

During the year, the Group's capital expenditure and investments were funded from cash on hand and internal cash generation. However, it is prudent for the Group to have additional working capital and funding for necessary infrastructures for its upcoming mining operation. The Group on April 27, 2010 entered into a subscription agreement with Golden Infinity Co., Ltd ("Golden Infinity") which Golden Infinity as a subscriber agreed to subscribe for convertible note with an aggregate principal amount of HK$300 million. The subscriber is a company wholly and beneficially owned by Mr. Lo Lin Shing, Simon (Chairman and executive director). The subscription is subject to fulfillment of certain conditions and therefore, has not been completed at the date when these financial statements are approved for issue.

The borrowings of the Group as at March 31, 2010 comprised loan note and convertible notes amounted to HK$1,963.0 million (2009: HK$1,757.6 million). The increase was due to the accrual of interest for the year calculated at effective interest rates in the range of 10.43% to 14.14%. Of the total borrowings, 12.9 per cent were repayable within 12 months and the rest was falling in the 1 to 2 year maturity profile.

As at March 31, 2010, the cash and bank balances were HK$121.3 million (2009: HK$660.9 million). The decline in cash balances was largely caused by the usage of funding in the mine development and related activities such as construction of the road from the Group's mine areas in Khushuut, Western Mongolia to the Yarant/Takeshenken border crossing with Xinjiang, PRC and the payment of cash consideration for the acquisition of an exploration concession with ferrous resources in Mongolia.

The liquidity ratio as at March 31, 2010 was 1.07 (2009: 24.0).

### 2. Investment in listed securities

As at March 31, 2010, the Group's held-for-trading investments comprised of equity securities listed in Hong Kong with fair value of HK$45.2 million (2009: HK$28.7 million).

### 3. Charge on Group's assets

There were no charges on the Group's assets for each of the two years ended March 31, 2009 and 2010.

### 4. Gearing Ratio

As at March 31, 2010, the gearing ratio of the Group was 0.13 (2009: 0.12) which was calculated based on the Group's total borrowings to total assets.

### 5. Foreign Exchange

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

### 6. Contingent liabilities

As at March 31, 2010, the Group did not have significant contingent liabilities (2009: Nil).

### 7. Dilution of interests in associated companies

On March 23, 2010, the Group's associated company MRHK, an investment holding company which owns 100% beneficial interest of Kai Yu Yuan and Kai Yu Tong and an 80% interest in a joint venture company, has allotted and issued additional shares to its existing major shareholder. Pursuant to the allotment and issuance of shares by MRHK, the Company's shareholding in MRHK has decreased from 25% to 19%. There is no material financial impact on such dilution.

## OUTLOOK

From our initial acquisition of the 34,000 hectares of concession areas, into 330,000 hectares and the initial mining operations at 600 hectares of our concession areas at the Khushuut Coal Mine, these have required extensive effort by the Group's management and staff.

We saw rapid exploration and demonstration of approximately 149 million tonnes of JORC in-place resources, which are substantially coking coal at the Khushuut Coal Mine. We identified the Xinjiang market as the market place for our premium coking coal and commenced initial mining in a rapid but prudent manner. We also upgraded the Khushuut Road for an aggregate sum of RMB1.35 billion (approximately HK$1.54 billion). These demonstrate our commitment in the Khushuut Coking Coal Project and the viability of our business model as an energy and resources developer which we shall repeat for our other projects.

We are on target to commence commercial production this year. Our initial plan is an annual production rate of 3 million tonnes raw coal by the end of 2011 with the intention to move to an annualized production rate of 5 to 6 million tonnes or more over time. We are also working on exploring our other resources and currently prospecting for further coal, copper and gold resources. We will also consider any potential energy and resources projects as and when the opportunities arise and to maximize the return to our shareholders through a sustainable development of our projects with regard to the principles of "People, Planet and Profit".

## HUMAN RESOURCES

As at March 31, 2010, the Group employed a total of 284 employees (as at March 31, 2009: 255) in Hong Kong, Beijing and Xinjiang, the PRC and Mongolia. 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. Appropriate training programs are also offered for staff training and development.

## 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.

## CORPORATE GOVERNANCE

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. The Board and the senior management of the Company recognize their responsibilities to maintain the interest of the shareholders and to enhance their values. The Board also believes a good corporate governance practice can facilitate a company in rapid growth under a healthy governance structure and strengthen the confidence of shareholders and investors.

The Company 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, 2010, the Company has complied with the code provisions of the CG Code except for deviations from the code provision A.4.1 and E.1.2 of the CG Code as summarized below:

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

   None of the existing non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the CG 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 CG Code.

ii. The code provision E.1.2 of the CG Code stipulates that the chairman of the Board (the "Chairman") should attend the AGM of the Company.

   The Chairman did not attend the 2009 AGM due to other business engagement. An executive Director had chaired the 2009 AGM and answered questions from shareholders. The AGM of the Company provides a channel for communication between the Board and the shareholders. A member of the Audit and Remuneration Committee was also available to answer questions at the 2009 AGM. Other than the AGM, shareholders may also communicate with the Company through the contact information listed on the Company's website under the Investor Relations Contact.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

During the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to and including the publication date of the annual results, all Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published. The Group Compliance Counsel will send a reminder prior to the commencement of such period to all Directors and relevant employees.

In the period of 30 days immediately preceding the publication of the half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to and including the publication date of the results, all Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published. The Group Compliance Counsel will send a reminder prior to the commencement of such period to all Directors and relevant employees.

It is stipulated under the Code and/or Employees' Guidelines that all dealings of the Company's securities must be conducted in accordance with the provisions stated therein. Under the 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.

All Directors of the Company have confirmed in writing that they have complied with the required standards set out in Model Code and the Code throughout the Financial Year.

## AUDIT COMMITTEE

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

Composition of Audit Committee Members:

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

The Audit Committee has reviewed the consolidated financial statements for the year ended March 31, 2010 of the Group.

## PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.mongolia-energy.com). The annual report of the Company for the year ended March 31, 2010 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites in due course.

## BOARD OF DIRECTORS

At the date of this announcement, the Board comprises seven directors, of which Mr. Lo Lin Shing, Simon, Mr. Liu Zhuo Wei and Ms. Yvette Ong as executive directors, Mr. To Hin Tsun, Gerald as non-executive director and Mr. Peter Pun *OBE, JP,* Mr. Tsui Hing Chuen, William *JP* and Mr. Lau Wai Piu as independent non-executive directors.

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

Hong Kong, July 16, 2010