



## Interim Report 2011



MONGOLIA INVESTMENT GROUP LIMITED

蒙古投資集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 402)

## CONTENTS

Corporate Information	2
Management Discussion and Analysis	4
Other Information	11
Condensed Consolidated Income Statement	19
Condensed Consolidated Statement of Comprehensive Income	20
Condensed Consolidated Statement of Financial Position	21
Condensed Consolidated Statement of Changes in Equity	23
Condensed Consolidated Statement of Cash Flows	24
Notes to the Financial Statements	25

## CORPORATE INFORMATION

### Directors

#### Executive Directors

Mr. YUEN Chow Ming (*Chairman*)  
 Mr. YUEN Wai Keung  
 (*Deputy Chairman*  
 and *Chief Executive Officer*)  
 Mr. SO Yiu Cheung  
 (*Deputy Chairman*)  
 Mr. CHEUNG Chi Man, Dennis  
 Mr. LIM Siong, Dennis  
 Mr. WONG Tak Chung  
 (Resigned on 27 July 2011)  
 Mr. ENEBISH Burenkhuu  
 Mr. LEUNG, Chung Tak Barry

#### Non-Executive Director

Mr. HO Hin Hung, Henry  
 (Re-designated from executive  
 director to non-executive  
 director on 28 April 2011)

#### Independent Non-Executive Directors

Mr. CHAN, Sai Kit Kevin  
 Mr. LIAO Cheung Tin, Stephen  
 Mr. TAM Tsz Kan

### Authorised Representatives

Mr. YUEN Wai Keung  
 Mr. LEUNG, Chung Tak Barry

### Company Secretary

Mr. CHEUNG Chi Man, Dennis

### Audit Committee

Mr. TAM Tsz Kan (*Chairman*)  
 Mr. CHAN, Sai Kit Kevin  
 Mr. LIAO Cheung Tin, Stephen

### Nomination Committee

Mr. YUEN Wai Keung (*Chairman*)  
 Mr. CHAN, Sai Kit Kevin  
 Mr. TAM Tsz Kan

### Remuneration Committee

Mr. YUEN Wai Keung (*Chairman*)  
 Mr. CHAN, Sai Kit Kevin  
 Mr. TAM Tsz Kan

## Registered Office

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## Principal Place of Business

Units 1809-1812  
Telford House  
16 Wang Hoi Road  
Kowloon Bay  
Hong Kong

## Hong Kong Legal Adviser

K & L Gates  
44/F., Edinburgh Tower, The Landmark  
15 Queen's Road Central  
Hong Kong

## Auditor

BDO Limited  
Certified Public Accountants  
25th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

## Principal Bankers

Citibank (Hong Kong) Limited  
Dah Sing Bank, Limited  
DBS Bank (Hong Kong) Limited  
Hang Seng Bank Limited  
The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
The Hong Kong and Shanghai Banking  
Corporation Limited  
United Overseas Bank Limited

## Principal Share Registrar

Butterfield Fulcrum Group  
(Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 609  
Grand Cayman KY1-1107  
Cayman Islands

## Branch Share Registrar

Tricor Investor Services Limited  
26/F., Tesbury Centre  
28 Queen's Road East  
Wan Chai  
Hong Kong

## Stock Code

402

## Website

<http://www.migmgl.com>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

For the six months ended 30 September 2011, Mongolia Investment Group Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) continued to achieve stable revenue from its waterworks business while dedicating efforts to facilitate profitable output at its Mongolia mine sites. In 2010, the Group transformed into a Mongolian resources-related conglomerate through the acquisition of Tugrugnuuriin Energy LLC (“**TNE**”), which holds four mining licences for a coal mine in Tugrug Valley (the “**TNE Mine**”), located approximately 170 km southeast of Ulaanbaatar, Mongolia. Preparatory work at the TNE Mine went well with development of basic infrastructure achieving satisfactory progress during the review period. On the other hand, the Group’s waterworks business continued to benefit from a number of public sector projects, with steady revenue generating mainly from contracts awarded by the Water Supplies Department (“**WSD**”).

#### Mining Business in Mongolia

The Mongolian government in recent years has been proactive in encouraging resource-related overseas investments, while both the local Mongolian community and the People’s Republic of China serve as vast markets for such high quality resources at close proximity. The Group currently holds four coal mining licences that cover a 1,114 hectares coal mine at Tugrug Valley. The Group also holds three exploration licences in respect of coal deposits in DundGobi (14,087 hectares), two exploration licences in respect of gold and copper deposits in Gobi-Altai (44,016 hectares), and two exploration licences in respect of gold and copper in Zavkhan (15,517 hectares), all located in Mongolia.

During the review period, preparatory work at the mine site has been set up, including the leasing of relevant equipment and machineries, power supply commissioning, as well as set up of dewatering treatment systems, etc. The Group has conducted several mining feasibility studies and obtained a mine operation permit from the Mongolian authorities for the TNE Mine.

Subsequently, mining has commenced, the output of coal from the TNE Mine during the period under review was about 748 tonnes, which was below our forecast in quantity. The Group also conducted further drilling works and laboratory tests to determine the structure and thickness of coal layer and to verify coal quality. The calorific value range of the resulted coal products were not adequate for contributing profitable output. In order to outweigh mining production cost escalation and achieve cost efficiency, the Group will focus on excavation and sale of coal with a calorific value of around 5,000 Kcal/kg or above. For this purpose, the Group will engage an independent mining expert to review and advise on its mining plan.

The Group has commenced upgrading the basic infrastructure of the mine camp. The Group also conducted an environmental impact assessment at Maanit railway station, which is located roughly 60km from the mine site. This will be the main railway station from which the Group's coal products will be transported to its customers. Construction of a compacted haul road connecting the mine to the loading point at Maanit railway station has already been completed.

Exploration activities at other regions where the Group holds exploration licences continued, and the Group has engaged independent mining experts to conduct feasibility studies at these regions.

## Waterworks Business in Hong Kong

The waterworks business continued to be a key source of revenue for the Group during the review period. Major revenue contributors driving this area of activity have been two waterworks maintenance projects from WSD, both of which have realized good progress since they were won in preceding years. Combined, the two contracts account for approximately 67% of the Group's total revenue, and are detailed below:

1. Term Contract for Waterworks District E - New Territories East (contract number: 1/WSD/09(E))
2. Term Contract for Waterworks District W - New Territories West (contract number: 1/WSD/09(W))

Another significant source of revenue came from two water mains replacement and rehabilitation projects that have been underway since the 2010 financial year, accounting for roughly 22% of the Group's total revenue. Details of the projects are as follows:

1. Replacement and Rehabilitation of Water Mains, Stage 3 - Mains in East Kowloon (Package A) (contract number: 7/WSD/08)
2. Replacement and Rehabilitation of Water Mains, Stage 3 - Mains on Hong Kong Island South and Outlying Islands (contract number: 18/WSD/08)

Capitalizing on the Government's various infrastructural maintenance initiatives, the Group has won two replacement and rehabilitation of water mains contracts and one slope preventive maintenance project during the period under review, valued at about HK\$1.3 billion in total. Details of the three projects are as follows:

1. Replacement and Rehabilitation of Water Mains, Stage 4 Phase 1 — Mains in Central & Western and Wan Chai Districts (contract number: 11/WSD/10), estimated completion in June 2015
2. Replacement and Rehabilitation of Water Mains, Stage 4 Phase 1 — Mains in East Kowloon (contract number: 14/WSD/10), estimated completion in August 2015
3. Preventive Maintenance Works, Upgrading Works and Associated Ground Investigations Works for WSD Slopes 2009-2010 Program (contract number: 6/WSD/10), estimated completion in November 2014

## FINANCIAL REVIEW

For the six months ended 30 September 2011, the Group recorded revenue of HK\$425.3 million, representing a year-on-year increase of 3.7% (six months ended 30 September 2010: HK\$410.1 million). This was largely due to steady income provided by two waterworks maintenance projects which began in September 2009, and two major water mains replacement and rehabilitation projects that commenced in early 2009.

Basic loss per share was HK0.83 cents (six months ended 30 September 2010: HK0.82 cents). This has included (i) imputed interest expenses of HK\$42.1 million on promissory note and convertible note issued as part of consideration for the acquisition of Mongolia Investment Group Limited on 17 June 2010 (the "**Acquisition**") (six months ended 30 September 2010: HK\$27.2 million); and (ii) fair value change on the derivative component of the convertible note amounted to HK\$2.3 million (six months ended 30 September 2010: HK\$5.4 million). If the above-mentioned items (i) and (ii) were to be excluded, the basic loss per share was HK0.39 cents.

## Revenue Breakdown by Business

During the review period, revenue from maintenance contracts for waterworks rose by 23.3% to HK\$286.2 million (six months ended 30 September 2010: HK\$232.1 million), accounting for 67.3% of the Group's total revenue (six months ended 30 September 2010: 56.6%). Revenue derived from water mains replacement and rehabilitation projects have dropped by 22.7% to HK\$117.7 million (six months ended 30 September 2010: HK\$152.2 million), accounting for 27.7% of the Group's total revenue (six months ended 30 September 2010: 37.1%). Landslip prevention projects generated total revenue of HK\$16.7 million, accounting for 3.9% of the Group's total revenue (six months ended 30 September 2010: 5.4%).

## Gross Profit

Gross profit increased by approximately 22.1% to HK\$14.6 million (six months ended 30 September 2010: HK\$11.9 million) and gross profit margin slightly increased to 3.4% (six months ended 30 September 2010: 2.9%).

## Capital Expenditure

During the period under review, the Group spent HK\$15.0 million on the acquisition of property, plant and equipment in Hong Kong and Mongolia (six months ended 30 September 2010: HK\$19.1 million).



## Operating Expenses

During the period under review, the Group's administrative expenses amounted to HK\$48.7 million (six months ended 30 September 2010: HK\$26.8 million), mainly consisted of legal and professional fees and staff costs (including directors' emoluments). The increase in administrative expenses was mainly due to increase in non-cash items such as share-based compensation on share options granted by the Company on 25 October 2010, and exchange losses arising from the Mongolian operations.

## Liquidity & Financial Resources

As at 30 September 2011, cash at banks and in hand and pledged bank deposits reached HK\$302.1 million (at 31 March 2011: HK\$323.2 million). Total borrowings, including promissory note and convertible note issued as part of consideration for the Acquisition, as at the end of the review period were HK\$846.2 million (at 31 March 2011: HK\$949.6 million). The Group's current ratio, being the ratio of current assets to current liabilities, was 1.5 times (at 31 March 2011: 3.4 times), and its gearing ratio, in terms of total borrowings net of cash at banks and in hand and pledged bank deposits to total equity, stood at 32.0% (at 31 March 2011: 37.0%).

## Foreign Exchange Risk Management

The Group's transactions are primarily denominated in Hong Kong dollars, United States dollars and Mongolian Tughrik. The Group has not implemented any formal hedging policy. However, the Group monitors its foreign exchange exposure continuously and, when it considers appropriate and necessary, will consider hedging significant foreign exchange exposure by way of forward foreign exchange contracts where appropriate.

## Contingent Liabilities

Other than those disclosed in note 20 to the financial statements, the Company provided corporate guarantees on the banking facilities granted to its subsidiaries. The amount of facilities utilised by the subsidiaries as at 30 September 2011 amounted to HK\$102.0 million (at 31 March 2011: HK\$148.0 million).

## Capital Structure

During the period under review, the Company completed a placing of 1,320,000,000 new shares to certain independent third parties, details of which were more particularly described in the Company's announcement dated 22 March 2011. The proceeds from the placing amounted to approximately HK\$88.4 million (before share issue expenses of HK\$1.8 million). During the same period, convertible note amounted to HK\$165.0 million were converted at the conversion price of HK\$0.22 per share whereby a respective total number of 750,000,000 shares were issued. Details of which are set out in note 16(d) to the financial statements.

## Human Resources

As at 30 September 2011, the Group had approximately 694 employees (at 30 September 2010: 647 employees) with nearly 100% holding permanent positions. Total staff costs, including directors' emoluments for the period under review amounted to HK\$72.6 million (six months ended 30 September 2010: HK\$62.1 million).

The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the Group and of the individuals concerned. In addition to salary payments, other staff benefits include performance bonuses, education subsidies, provident fund, medical insurance and the use of share option scheme to recognize and acknowledge contributions made or may make to the business development of the Group by its employees.

## PROSPECTS

Moving forward, the Group will continue to develop the operations at the TNE Mine gradually, the management team will closely monitor operation flow with the objective of securing off-take agreements with customers. Exploration activities and feasibility studies within exploration licenced areas will continue given the management is optimistic about the long-term outlook of the commodities market.

In respect of the waterworks business, the management remains confident about its prospects. With the Hong Kong government's commitment towards implementing more infrastructural development projects mentioned in its 2011 Policy Address, it is believed the Group's waterworks business will benefit from such significantly. The Group will duly seek to secure new public sector contracts, thereby drawing additional sources of income.

With steady developments in the waterworks business and the mining operation in Mongolia, the management will continue to dedicate efforts to delivering satisfactory returns to shareholders in the long run.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2011, the directors and the chief executive had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken of deemed to have under such provisions of the SFO) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"),

- (a) Long position in the ordinary shares of HK\$0.05 each of the Company (the "**Shares**")

Name of director	Note	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company
Mr. YUEN Chow Ming		Personal	120,000,000	1.30%
Mr. YUEN Wai Keung	1	Interest of controlled corporation	93,888,000	1.02%
		Personal	125,704,000	1.37%
Mr. SO Yiu Cheung		Personal	123,000,000	1.34%
Mr. CHEUNG Chi Man, Dennis		Personal	8,000,000	0.09%
Mr. LIM Siong, Dennis		Personal	206,850,000	2.25%

Notes:

- (1) The 93,888,000 Shares are registered in the name of Success Token Holdings Limited ("**Success Token**"), of which Mr. YUEN Wai Keung is entitled to exercise, or control the exercise of, forth-fifths of the voting power at general meetings of Success Token. Hence Success Token is a controlled corporation (within the meaning of the SFO) of Mr. YUEN Wai Keung, who is therefore deemed to be interested in these Shares under the SFO.
- (2) The approximate percentage of shareholding is calculated based on the issued share capital of the Company of 9,197,980,000 Shares as at 30 September 2011.

(b) Beneficial interests in the shares of associated corporations

<b>Name of director</b>	Note	<b>Name of associated corporation</b>	<b>Number of shares held in the associated corporation</b>	<b>Approximate percentage of shareholding</b>
Mr. YUEN Wai Keung	1	Success Token	800	80%

Note:

- (1) The 800 shares are held by Mr. YUEN Wai Keung.

(c) Long position in the underlying shares and debentures of the Company

Share Options

Pursuant to the share option scheme adopted by the Company on 25 February 2006 (details are set out in note 18 to the financial statements), certain directors were granted share options to subscribe for the Shares, details of share options outstanding and exercisable as at 30 September 2011 were as follows:

Name of director	Date of grant	Capacity	Number of underlying Shares comprised in the share options	Exercisable period	Exercise price per share
Mr. YUEN Chow Ming	25 August 2009	Beneficial owner	1,000,000	25 August 2009 to 31 August 2012	HK\$0.385
Mr. YUEN Wai Keung	25 August 2009	Beneficial owner	1,000,000	25 August 2009 to 31 August 2012	HK\$0.385
	25 October 2010	Beneficial owner	85,000,000	25 April 2011 to 24 October 2020	HK\$0.171
Mr. HO Hin Hung, Henry	25 October 2010	Beneficial owner	40,000,000	25 April 2011 to 24 October 2020	HK\$0.171
Mr. LIM Siong, Dennis	25 October 2010	Beneficial owner	85,000,000	25 April 2011 to 24 October 2020	HK\$0.171
Mr. ENEBISH Burenkhuu	25 October 2010	Beneficial owner	10,000,000	25 April 2011 to 24 October 2020	HK\$0.171
Mr. TAM Tsz Kan	25 October 2010	Beneficial owner	5,000,000	25 April 2011 to 24 October 2020	HK\$0.171
Mr. LIAO Cheung Tin, Stephen	25 August 2009	Beneficial owner	600,000	25 August 2009 to 31 August 2012	HK\$0.385
	25 October 2010	Beneficial owner	5,000,000	25 April 2011 to 24 October 2020	HK\$0.171

### Convertible Note

Zero coupon convertible note in the principal amount of HK\$41,905,500 at the conversion price of HK\$0.22 which can be converted to 190,479,545 Shares as at 30 September 2011 was issued to Mr. LIM Siong, Dennis as part of the consideration for the Acquisition.

Save as disclosed above, as at 30 September 2011, none of the directors or chief executive, had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the paragraphs headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" above and note 16(d) and 18 to the financial statements, at no time during the period under review were rights to acquire benefits by means of the acquisition of Shares in, underlying shares or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors or their respective spouse or minor children to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 30 September 2011, so far as the directors and the chief executive of the Company are aware, the following persons or corporations (other than the directors or chief executive of the Company) had interests or short positions in the Shares, underlying shares and debentures of the Company of 5% or more of the Company's issued share capital:

<b>Name of substantial shareholder</b>	<b>Capacity/ Nature of interest</b>	<b>Notes</b>	<b>Number of Shares/underlying shares held</b>	<b>Approximate percentage of shareholding in the Company</b>
Wong Ching Ping Alex	Beneficial owner	1	1,919,127,272	20.86%
Gomes Maria Da Silva Rubi Angela	Beneficial owner	2	1,919,127,272	20.86%
Diamond Wealth Holdings Limited	Interest of controlled corporation	1	1,852,727,272	20.14%
Tan Kah Hock	Beneficial owner	3	1,343,352,272	14.60%
Shu Tjai Yun	Beneficial owner	4	1,343,352,272	14.60%
Mashbat Bukhbat	Beneficial owner	5	1,135,227,272	12.34%
Balbold Orgilsuren	Beneficial owner	6	1,135,227,272	12.34%
Lim Tang Wai Ting	Beneficial owner	7	482,329,545	5.24%

Save as disclosed above, at 30 September 2011, the Company has not been notified of any other person or corporation who had an interest directly or indirectly or short positions in the Shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange and were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.



## Notes:

1. These 1,919,127,272 Shares comprise (i) 66,000,000 Shares held by Wong Ching Ping Alex as beneficial owner, (ii) 750,000,000 Shares held by Diamond Wealth Holdings Limited ("**Diamond Wealth**"), (iii) 400,000 Shares held by Bright Mark Investments Limited ("**Bright Mark**") and (iv) unlisted physically settled derivatives that may be converted into 1,102,727,272 Shares, representing approximately 11.99% of the total issued share capital of the Company as at 30 September 2011. Diamond Wealth is wholly owned by Wong Ching Ping Alex. Accordingly, Wong Ching Ping Alex was deemed to be interested in the same parcel of those Shares and underlying shares held by Diamond Wealth. Bright Mark is wholly owned by Wong Ching Ping Alex. Accordingly, Wong Ching Ping Alex was deemed to be interested in the same parcel of those Shares held by Bright Mark.
2. Under Part XV of the SFO, Gomes Maria Da Silva Rubi Angela, the spouse of Wong Ching Ping Alex, was deemed to be interested in the same parcel of those Shares and underlying shares held by Wong Ching Ping Alex.
3. Tan Kah Hock is interested in (i) 699,350,000 Shares and (ii) unlisted physically settled derivatives that may be converted into 644,002,272 Shares, representing approximately 7.00% of the total issued share capital of the Company as at 30 September 2011.
4. Under Part XV of the SFO, Shu Tjai Yun, the spouse of Tan Kah Hock, was deemed to be interested in the same parcel of those Shares and underlying shares held by Tan Kah Hock.
5. Mashbat Bukhbat is interested in (i) 591,000,000 Shares and (ii) unlisted physically settled derivatives that may be converted into 544,227,272 Shares, representing approximately 5.92% of the total issued share capital of the Company as at 30 September 2011.
6. Under Part XV of the SFO, Balbold Orgilsuren, the spouse of Mashbat Bukhbat, was deemed to be interested in the same parcel of those Shares and underlying shares held by Mashbat Bukhbat.
7. Under Part XV of the SFO, Lim Tang Wai Ting, the spouse of Lim Siong, Dennis, was deemed to be interested in the same parcel of those Shares and underlying shares held by Lim Siong, Dennis disclosed in the section headed "Directors and chief executive's interests and short positions in Shares, underlying shares and debentures of the Company and its associated corporations" in this interim report.
8. All interests stated above represented long positions.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the period under review, none of the directors has any competing interests in any business or has any interest in any business that may constitute direct or indirect competition with the Group.

## SHARE OPTIONS

Details of the Company's share option scheme are set out in note 18 to the financial statements.

## INTERIM DIVIDEND

No dividend has been paid or declared by the Company in respect of the current and last interim period.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the period under review, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company.

## CORPORATE GOVERNANCE

The board of directors (the "**Board**") considers that good corporate governance is essential for enhancing accountability and transparency of a company to the investment public and other shareholders. The directors are dedicated to maintain high standard corporate governance practices. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and to fulfill its commitment to excellence in corporate governance.

The Company has complied with the applicable code provisions of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules for the six months ended 30 September 2011.

Since 1 April 2011, the composition of the Board has undergone the following changes:

1. Mr. HO Hin Hung, Henry was re-designated from executive director to non-executive director on 28 April 2011.
2. Mr. WONG Tak Chung resigned as executive director with effect from 27 July 2011.

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions. The obligations to comply with the Listing Rules are set out in the terms of the service contracts of each executive director and the letters of appointment of each non-executive director and independent non-executive director. The Company has made specific enquires with the directors, and all directors have confirmed that they have complied with the requirements set out under the Model Code for the six months ended 30 September 2011.

## AUDIT COMMITTEE

As at the date of this report, the audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive directors, namely Mr. TAM Tsz Kan (as chairman of the Audit Committee), Mr. CHAN, Sai Kit Kevin and Mr. LIAO Cheung Tin, Stephen. The Audit Committee has, at the date of this report, reviewed with the Company's management and the auditors of the Company, the internal controls and financial reporting matters of the Company and the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2011 before submitting to the Board for approval. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

By Order of the Board

**YUEN Wai Keung**

*Deputy Chairman and Chief Executive Officer*

Hong Kong, 30 November 2011

## CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 September 2011

	Notes	Six months ended 30 September	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>Revenue</b>	4	<b>425,322</b>	410,147
Cost of revenue		<b>(410,743)</b>	(398,209)
<b>Gross profit</b>		<b>14,579</b>	11,938
Other income and gains	4	<b>2,510</b>	9,146
Administrative expenses		<b>(48,662)</b>	(26,760)
<b>Operating loss</b>	6	<b>(31,573)</b>	(5,676)
Finance costs	7	<b>(43,309)</b>	(28,643)
<b>Loss before income tax</b>		<b>(74,882)</b>	(34,319)
Income tax expense	8	–	(7)
<b>Loss for the period</b>		<b>(74,882)</b>	(34,326)
Attributable to:			
Owners of the Company		<b>(74,691)</b>	(34,308)
Non-controlling interests		<b>(191)</b>	(18)
		<b>(74,882)</b>	(34,326)
<b>Loss per share</b>	10	<b>HK cents</b>	HK cents
– Basic		<b>(0.83)</b>	(0.82)
– Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2011

	<b>Six months ended 30 September</b>	
	<b>2011 (Unaudited) HK\$'000</b>	2010 (Unaudited) HK\$'000
<b>Loss for the period</b>	<b>(74,882)</b>	(34,326)
<b>Other comprehensive income</b>		
Exchange difference arising from translation of overseas operations	<b>(91,159)</b>	38,389
<b>Total comprehensive income for the period</b>	<b>(166,041)</b>	4,063
Attributable to:		
Owners of the Company	<b>(165,928)</b>	4,081
Non-controlling interests	<b>(113)</b>	(18)
	<b>(166,041)</b>	4,063

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2011

	Notes	<b>At 30 September 2011 (Unaudited) HK\$'000</b>	At 31 March 2011 (Audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	<b>117,577</b>	112,425
Prepaid land lease payments		<b>482</b>	630
Mining licences	12	<b>2,251,927</b>	2,377,648
Exploration and evaluation assets	13	<b>27,446</b>	28,139
Prepayments and deposits		<b>3,824</b>	4,038
Derivative financial asset – Derivative Component of the Convertible Note	16(d)	<b>66,813</b>	80,342
		<b>2,468,069</b>	2,603,222
<b>Current assets</b>			
Inventories		<b>59,357</b>	58,976
Amounts due from customers of contract works		<b>256,284</b>	238,124
Trade and other receivables, prepayments and deposits	14	<b>129,960</b>	100,466
Tax recoverable		<b>286</b>	–
Pledged bank deposits		<b>22,405</b>	32,501
Cash at banks and in hand		<b>279,677</b>	290,666
		<b>747,969</b>	720,733

	Notes	<b>At 30 September 2011 (Unaudited) HK\$'000</b>	At 31 March 2011 (Audited) HK\$'000
<b>Current liabilities</b>			
Trade and other payables	15	<b>91,301</b>	75,529
Tax payable		<b>417</b>	117
Borrowings	16	<b>417,672</b>	138,004
		<b>509,390</b>	213,650
<b>Net current assets</b>			
		<b>238,579</b>	507,083
<b>Total assets less current liabilities</b>			
		<b>2,706,648</b>	3,110,305
<b>Non-current liabilities</b>			
Borrowings	16	<b>428,500</b>	811,605
Government subsidies		<b>7,330</b>	7,740
Deferred tax liabilities		<b>568,482</b>	599,976
		<b>1,004,312</b>	1,419,321
<b>Net assets</b>			
		<b>1,702,336</b>	1,690,984
<b>EQUITY</b>			
Share capital	17	<b>459,899</b>	356,399
Reserves		<b>1,242,946</b>	1,334,981
Equity attributable to owners of the Company		<b>1,702,845</b>	1,691,380
Non-controlling interests		<b>(509)</b>	(396)
<b>Total equity</b>			
		<b>1,702,336</b>	1,690,984

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2011

	Equity attributable to owners of the Company										
	Share capital HK\$'000	Share premium <sup>a</sup> HK\$'000	Merger reserve <sup>a</sup> HK\$'000	Share option reserve <sup>a</sup> HK\$'000	Capital redemption reserve <sup>a</sup> HK\$'000	Translation reserve <sup>a</sup> HK\$'000	Convertible note equity reserve <sup>a</sup> HK\$'000	Retained profits/(Accumulated losses) <sup>a</sup> HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
(Unaudited)											
At 1 April 2010	41,294	213,742	13,805	3,132	6,629	575	-	84,829	364,006	262	364,268
Net loss for the period	-	-	-	-	-	-	-	(34,308)	(34,308)	(18)	(34,326)
Other comprehensive income	-	-	-	-	-	38,389	-	-	38,389	-	38,389
Total comprehensive income for the period	-	-	-	-	-	38,389	-	(34,308)	4,081	(18)	4,063
Shares issued under placing (note 17(b))	190,000	266,000	-	-	-	-	-	-	456,000	-	456,000
Share issue expenses	-	(4,560)	-	-	-	-	-	-	(4,560)	-	(4,560)
Issue of Consideration Shares	98,500	334,900	-	-	-	-	-	-	433,400	-	433,400
Share issued upon exercise of share options	105	1,006	-	(302)	-	-	-	-	809	-	809
Share options forfeited (note 18)	-	-	-	(29)	-	-	-	29	-	-	-
Issue of Convertible Note	-	-	-	-	-	-	494,565	-	494,565	-	494,565
Conversion of Convertible Note (note 16(d))	250	854	-	-	-	-	(570)	-	534	-	534
Transactions with owners	288,855	598,200	-	(331)	-	-	493,995	29	1,380,748	-	1,380,748
At 30 September 2010	330,149	811,942	13,805	2,801	6,629	38,964	493,995	50,550	1,748,835	244	1,749,079
(Unaudited)											
At 1 April 2011	<b>356,399</b>	<b>903,682</b>	<b>13,805</b>	<b>17,462</b>	<b>6,629</b>	<b>244,261</b>	<b>434,124</b>	<b>(284,982)</b>	<b>1,691,380</b>	<b>(396)</b>	<b>1,690,984</b>
Net loss for the period	-	-	-	-	-	-	-	(74,691)	(74,691)	(191)	(74,882)
Other comprehensive income	-	-	-	-	-	(91,237)	-	-	(91,237)	78	(91,159)
Total comprehensive income for the period	-	-	-	-	-	(91,237)	-	(74,691)	(165,928)	(113)	(166,041)
Shares issued under placing (note 17(a))	<b>66,000</b>	<b>22,440</b>	-	-	-	-	-	-	<b>88,440</b>	-	<b>88,440</b>
Share issue expenses	-	(1,776)	-	-	-	-	-	-	(1,776)	-	(1,776)
Share-based compensation (note 18)	-	-	-	<b>7,038</b>	-	-	-	-	<b>7,038</b>	-	<b>7,038</b>
Conversion of Convertible Note (notes 16(d) and 17(c))	<b>37,500</b>	<b>131,720</b>	-	-	-	-	(85,529)	-	<b>83,691</b>	-	<b>83,691</b>
Transactions with owners	<b>103,500</b>	<b>152,384</b>	-	<b>7,038</b>	-	-	(85,529)	-	<b>177,393</b>	-	<b>177,393</b>
At 30 September 2011	<b>459,899</b>	<b>1,056,066</b>	<b>13,805</b>	<b>24,500</b>	<b>6,629</b>	<b>153,024</b>	<b>348,595</b>	<b>(359,673)</b>	<b>1,702,845</b>	<b>(509)</b>	<b>1,072,336</b>

\* The total of these balances represents reserves in the condensed consolidated statement of financial position.



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 September 2011

	<b>Six months ended 30 September</b>	
	<b>2011 (Unaudited) HK\$'000</b>	2010 (Unaudited) HK\$'000
Net cash used in operating activities	<b>(45,352)</b>	(57,377)
Net cash used in investing activities	<b>(5,433)</b>	(235,695)
Net cash generated from financing activities	<b>40,663</b>	459,292
Net (decrease)/increase in cash and cash equivalents	<b>(10,122)</b>	166,220
Cash and cash equivalents at beginning of the period	<b>290,666</b>	87,552
Effect of foreign exchange rate changes on cash held	<b>(867)</b>	(458)
Cash and cash equivalents at end of the period	<b>279,677</b>	253,314
<b>Analysis of cash and cash equivalents</b>		
Cash at banks and in hand	<b>279,677</b>	253,314

## NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 30 September 2011

### 1. General Information

The Company was incorporated in the Cayman Islands on 25 May 2004 as an exempted company with limited liability and its shares are listed on the Stock Exchange. The address of its principal place of business is Units 1809-1812, Telford House, 16 Wang Hoi Road, Kowloon Bay, Hong Kong.

The Group is principally engaged in the provision of maintenance and construction works on civil engineering contracts in respect of waterworks engineering, road works and drainage and slope upgrading for the public sector in Hong Kong, the provision of water supply services in Mainland China as well as mining and exploration of mineral resources in Mongolia.

The unaudited condensed consolidated financial statements for the six months ended 30 September 2011 (the “**Interim Financial Statements**”) have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of Appendix 16 to the Listing Rules.

The Interim Financial Statements do not include all of the information and disclosure required in the annual financial statements and thereby they should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2011.

The Interim Financial Statements are unaudited, but have been reviewed by the Company’s Audit Committee. The Interim Financial Statements were approved for issue by the Board on 30 November 2011.

## 2. Principal Accounting Policies

The Interim Financial Statements have been prepared under the historical cost basis except for derivative financial instruments which are stated at fair value.

The accounting policies used in preparing the Interim Financial Statements are consistent with those followed in the Group's annual financial statements for the year ended 31 March 2011 with the adoption of certain standards and interpretations of Hong Kong Financial Reporting Standards ("HKFRSs") issued and became effective in the current interim period as described below.

## 3. Adoption of New or Revised HKFRSs

In the current period, the Group has applied for the first time the following new or amended HKFRSs issued by the HKICPA which are relevant to and effective for the Group's financial statements for the period.

HKAS 24 (Revised)	Related Party Disclosures
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010

Other than as noted below, the adoption of these new or amended HKFRSs did not result in significant changes in the Group's accounting policies.

### (a) Adoption of HKAS 24 (Revised) "Related Party Disclosures"

The revision clarifies and simplifies the definition of a related party. The revised definition is of narrower or wider scope than before depending on the particular situation. The revised standard is clear that it also applies to commitments between an entity and its related parties, details of the disclosure have been included in note 21 to the interim financial report.

### (b) Amendment to HKAS 34 "Interim Financial Reporting"

It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

#### 4. Revenue, Other Income and Gains

An analysis of revenue from the Group's principal activities, which is also the Group's turnover, and other income and gains is as follows:

	<b>Six months ended 30 September</b>	
	<b>2011 (Unaudited) HK\$'000</b>	2010 (Unaudited) HK\$'000
<b>Revenue</b>		
Contract revenue from maintenance and construction works on civil engineering contracts	<b>424,920</b>	409,783
Revenue from water supply services	<b>315</b>	267
Water supply related installation fee	<b>87</b>	97
	<b>425,322</b>	410,147
<b>Other income and gains</b>		
Bank interest income	<b>94</b>	107
Exchange gains	<b>–</b>	3,622
Fair value change on the Derivative Component of the Convertible Note (note 16(d))	<b>2,299</b>	5,381
Sundry income	<b>117</b>	36
	<b>2,510</b>	9,146
<b>Total income</b>	<b>427,832</b>	419,293

## 5. Segment Information

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for the purpose of resources allocation and assessment of segment performance. The Group has identified the following reportable segments for its segment reporting:

Waterworks engineering contracting business	:	Provision of maintenance and construction works on civil engineering contracts in respect of waterworks engineering, road works and drainage and slope upgrading for the public sector in Hong Kong
Water supply business	:	Provision of water supply services and water supply related installation services in Mainland China
Mining and exploration business	:	Mining and exploration of mineral resources in Mongolia

Each of these operating segments is managed separately as each of the business lines requires different resources as well as operating approaches.

Fair value change on the Derivative Component of the Convertible Note (note 16(d)), finance costs, income taxes and corporate income and expenses which are not directly attributable to the business activities of any operating segment, are not included in arriving at the operating results of the operating segment.

Segment assets include all assets with the exception of corporate assets, including pledged bank deposits, cash at banks and in hand and other assets which are not directly attributable to the business activities of operating segments, as well as those assets which are managed on a group basis such as tax assets.

## 5. Segment Information (Continued)

Segment information of the Group's reportable segments are summarised below:

	Waterworks engineering contracting business		Water supply business		Mining and exploration business		Consolidated	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2011 (unaudited) HK\$'000	2010 (unaudited) HK\$'000	2011 (unaudited) HK\$'000	2010 (unaudited) HK\$'000	2011 (unaudited) HK\$'000	2010 (unaudited) HK\$'000	2011 (unaudited) HK\$'000	2010 (unaudited) HK\$'000
Reportable segment revenue	424,920	409,783	402	364	-	-	425,322	410,147
Reportable segment (loss)/profit	(442)	926	(866)	(447)	(32,194)	(1,379)	(33,502)	(900)
	As at 30 September 2011 (unaudited) HK\$'000	As at 31 March 2011 (audited) HK\$'000	As at 30 September 2011 (unaudited) HK\$'000	As at 31 March 2011 (audited) HK\$'000	As at 30 September 2011 (unaudited) HK\$'000	As at 31 March 2011 (audited) HK\$'000	As at 30 September 2011 (unaudited) HK\$'000	As at 31 March 2011 (audited) HK\$'000
Reportable segment assets	532,552	552,912	14,504	14,978	2,578,559	2,642,434	3,125,615	3,210,324

## 5. Segment Information (Continued)

Reconciliation of the Group's reportable segment loss to the loss before income tax is as follows:

	<b>Six months ended 30 September</b>	
	<b>2011 (Unaudited) HK\$'000</b>	2010 (Unaudited) HK\$'000
Reportable segment loss	<b>(33,502)</b>	(900)
Fair value change on the Derivative Component of the Convertible Note (note 16(d))	<b>2,299</b>	5,381
Corporate income and expenses	<b>(370)</b>	(10,157)
Finance costs	<b>(43,309)</b>	(28,643)
Loss before income tax	<b>(74,882)</b>	(34,319)

## 6. Operating Loss

	<b>Six months ended 30 September</b>	
	<b>2011 (Unaudited) HK\$'000</b>	2010 (Unaudited) HK\$'000
Operating loss is arrived at after charging:		
Amortisation of prepaid land lease payments	<b>127</b>	60
Depreciation of property, plant and equipment		
– owned assets	<b>6,352</b>	5,276
– leased assets	<b>82</b>	113
	<b>6,434</b>	5,389
Less: Amounts capitalised in mine development assets (included in property, plant and equipment)	<b>(344)</b>	–
Net depreciation of property, plant and equipment	<b>6,090</b>	5,389
Exchange losses	<b>8,190</b>	–
Staff costs (including directors' emoluments)		
– salaries, allowances and benefits in kind	<b>65,979</b>	60,031
– retirement benefits scheme contributions (defined contribution plan)	<b>1,922</b>	2,107
– equity-settled share-based compensation (note 18)	<b>4,667</b>	–
	<b>72,568</b>	62,138
Operating lease charges		
– land and buildings	<b>2,525</b>	1,066
– plant and machinery	<b>2,370</b>	2,629
	<b>4,895</b>	3,695
Loss on disposal of property, plant and equipment	<b>503</b>	749



## 7. Finance Costs

	<b>Six months ended 30 September</b>	
	<b>2011 (Unaudited) HK\$'000</b>	2010 (Unaudited) HK\$'000
Interest charges on:		
Bank loans and overdraft wholly repayable within five years	<b>1,219</b>	1,418
Interest element of finance lease payments	<b>6</b>	28
	<b>1,225</b>	1,446
Imputed interest expenses		
on Promissory Note (note 16(c))	<b>16,185</b>	8,559
Imputed interest expenses		
on Convertible Note (note 16(d))	<b>25,899</b>	18,638
Total interest on financial liabilities stated at amortised cost	<b>43,309</b>	28,643

## 8. Income Tax Expense

No income tax is provided for current period as there is no assessable profit derived. Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for last interim period.

	<b>Six months ended 30 September</b>	
	<b>2011 (Unaudited) HK\$'000</b>	2010 (Unaudited) HK\$'000
Current tax for the period		
– Hong Kong profits tax	<b>–</b>	7

## 9. Dividends

No dividend has been paid or declared by the Company in respect of the current and last interim period.

## 10. Loss Per Share

The calculation of basic loss per share is based on the loss for the period attributable to the owners of the Company of HK\$74,691,000 (six months ended 30 September 2010: HK\$34,308,000) and the weighted average number of ordinary shares in issue during the period of 30 September 2011 of 9,034,537,000 (six months ended 30 September 2010: 4,171,167,000).

Diluted loss per share is not presented as the impact of the Convertible Note as disclosed in note 16(d) and the outstanding share options disclosed in note 18 had an anti-dilutive effect on the basic loss per share presented.

## 11. Property, Plant and Equipment

During the six months ended 30 September 2011, the Group incurred capital expenditure of HK\$14,954,000 (six months ended 30 September 2010: HK\$19,135,000), which were incurred as to approximately Nil (six months ended 30 September 2010: HK\$5,559,000) in land and buildings, approximately HK\$1,018,000 (six months ended 30 September 2010: HK\$1,533,000) in furniture, fixtures and equipment, approximately HK\$2,972,000 (six months ended 30 September 2010: HK\$179,000) in leasehold improvements, approximately HK\$2,986,000 (six months ended 30 September 2010: HK\$4,407,000) in motor vehicles, approximately HK\$2,185,000 (six months ended 30 September 2010: HK\$7,457,000) in plant, machinery and tools, and approximately HK\$5,793,000 (six months ended 30 September 2010: Nil) in mine development assets. Motor vehicles with net carrying value of HK\$707,000 (six months ended 30 September 2010: HK\$1,136,000) were disposed of during the current interim period.

## 12. Mining Licences

	<b>(Unaudited)</b> <b>HK\$'000</b>
Carrying amount at 1 April 2011	<b>2,377,648</b>
Exchange realignment	<b>(125,721)</b>
Carrying amount at 30 September 2011	<b>2,251,927</b>

Licences represent the carrying amount of four mining rights in respect of a coal mine located in Tugrug Valley within the administrative unit of Bayan Soum of Tur Aimag in Mongolia covering area of 1,114 hectares in aggregate.

## 12. Mining Licences (Continued)

Pursuant to the Mineral Law of Mongolia which was adopted in 2006, mining licence is granted for an initial period of 30 years and holder of a mining licence may apply for an extension of such licence for two successive periods of 20 years each.

During the financial year ended 31 March 2011, impairment loss of HK\$300.6 million was recognised in profit or loss to write down the goodwill arising from the Acquisition with carrying amount of HK\$35.5 million, and to write down the value of the coal mining licences held by TNE before being transferred out of exploration and evaluation assets, which represents the carrying value of the coal mining licences of HK\$353.4 million offsetting with the tax effect of HK\$88.3 million.

Based on the assessment of the directors, no further impairment is necessary as there are no indications of further impairment.

No amortisation for the mining licences was provided for as the production of the coal mine site has not yet commenced in this financial period.

## 13. Exploration and Evaluation Assets

	<b>Licences</b> (Unaudited) HK\$'000	<b>Others</b> (Unaudited) HK\$'000	<b>Total</b> (Unaudited) HK\$'000
Carrying amount			
at 1 April 2011	5,741	22,398	28,139
Additions	102	702	804
Exchange realignment	(305)	(1,192)	(1,497)
Carrying amount			
at 30 September 2011	5,538	21,908	27,446

The amounts of exploration and evaluation assets as at 30 September 2011 represent active exploration projects. Based on the assessment of the directors, no impairment is necessary as there are no indications of further impairment.

## 14. Trade and Other Receivables, Prepayments and Deposits

	<b>At 30 September 2011 (Unaudited) HK\$'000</b>	At 31 March 2011 (Audited) HK\$'000
Trade receivables	<b>43,973</b>	14,772
Retention receivables	<b>32,644</b>	31,851
Prepaid land lease payments	<b>220</b>	234
Prepayments and deposits	<b>18,472</b>	19,775
Other receivables	<b>34,651</b>	33,834
	<b>129,960</b>	100,466

The ageing analysis of trade receivables (based on invoice date) as at the reporting date is as follows:

	<b>At 30 September 2011 (Unaudited) HK\$'000</b>	At 31 March 2011 (Audited) HK\$'000
Within 3 months	<b>43,971</b>	14,769
Over 1 year	<b>2</b>	3
	<b>43,973</b>	14,772

Credit period granted to customers of contract works is normally 30 to 60 days. Application for progress payments of contract works is made on a regular basis. Credit period granted to customers of water supply business is normally 30 days.

## 15. Trade and Other Payables

Details of the trade and other payables including the ageing analysis of trade payables (based on invoice date) are as follows:

	<b>At 30 September 2011 (Unaudited) HK\$'000</b>	At 31 March 2011 (Audited) HK\$'000
Trade payables aged		
– Within 3 months	<b>64,466</b>	53,980
– 4 to 6 months	<b>7,101</b>	4,532
– 7 to 9 months	<b>598</b>	908
– 10 to 12 months	<b>115</b>	78
– Over 1 year	<b>1,817</b>	1,740
	<b>74,097</b>	61,238
Retention payables	<b>3,902</b>	3,911
Other payables and accruals	<b>13,302</b>	10,380
	<b>91,301</b>	75,529

## 16. Borrowings

	<b>At 30 September 2011 (Unaudited) HK\$'000</b>	At 31 March 2011 (Audited) HK\$'000
<b>Current liabilities</b>		
Bank loans and overdraft, secured (note (a))	<b>91,856</b>	137,645
Finance lease liabilities (note (b))	<b>159</b>	359
Promissory Note (note (c))	<b>325,657</b>	–
	<b>417,672</b>	138,004
<b>Non-current liabilities</b>		
Finance lease liabilities (note (b))	–	13
Promissory Note (note (c))	–	309,472
Convertible Note – liability component (note (d))	<b>428,500</b>	502,120
	<b>428,500</b>	811,605
<b>Total borrowings</b>	<b>846,172</b>	949,609

## 16. Borrowings (Continued)

Notes:

- (a) Bank loans and overdraft are denominated in HK\$, arranged at floating rates ranged from 1.76% to 2.46% (at 31 March 2011: 1.72% to 2.48%) per annum and are repayable within one year. Bank loans and overdraft amounting to HK\$91,856,000 (at 31 March 2011: HK\$137,645,000) are secured by the corporate guarantees issued by the Company and are secured by charges over bank deposits amounting to HK\$22,405,000 (at 31 March 2011: HK\$32,501,000). In addition, bank loans amounting to HK\$79,606,000 (at 31 March 2011: HK\$120,642,000) is secured by the proceeds on certain civil engineering contracts.
- (b) The Group leases certain of its motor vehicles and these leases are classified as finance leases having remaining lease terms ranging from six to seven months (at 31 March 2011: twelve to thirteen months). As at 30 September 2011, the total future minimum lease payments under finance leases and their present value were as follows:

	<b>At 30 September 2011 (Unaudited) HK\$'000</b>	At 31 March 2011 (Audited) HK\$'000
Total minimum lease payments		
Due within one year	<b>165</b>	371
Due in the second year	–	13
	<b>165</b>	384
Less: future finance charges on finance leases	<b>(6)</b>	(12)
Present value of finance lease liabilities	<b>159</b>	372
Present value of financial lease liabilities		
Due within one year	<b>159</b>	359
Due in the second year	–	13
	<b>159</b>	372
Less: Current portion due within one year included under current liabilities	<b>(159)</b>	(359)
Non-current portion included under non-current liabilities	–	13



## 16. Borrowings (Continued)

- (c) As part of the consideration for the Acquisition, the Company issued a promissory note in principal amount of HK\$350,000,000 (the "**Promissory Note**"). The Promissory Note is unsecured, non-interest bearing and will mature in two years from the date of issue of the Promissory Note on 17 June 2012. As at the reporting date, the Promissory Note is due within one year and is re-classified from non-current liability to current liability in current interim period.

The fair value of the Promissory Note on the date of the Acquisition on 17 June 2010 was HK\$285,614,000, which was determined based on the valuation using discounted cash flows method carried out by Asset Appraisal Limited, an independent professional valuer. The carrying value of the Promissory Note as at 30 September 2011 was HK\$325,657,000 (at 31 March 2011: HK\$309,472,000).

The Promissory Note is subsequently measured at amortisation cost using effective interest method by applying an effective interest rate of 10.70% per annum. Imputed interest expenses of approximately HK\$16,185,000 (note 7) (six months ended 30 September 2010: HK\$8,559,000) has been recognised in the profit or loss of the current interim period.

- (d) As part of the consideration for the Acquisition, the Company issued a zero coupon convertible note in principal amount of HK\$954,100,000 (the "**Convertible Note**") which will mature in five years from the date of issue of the Convertible Note on 17 June 2015.

At the option of the holder of the Convertible Note (the "**Noteholder**"), the Noteholder may convert the whole or part of the principal amount of the Convertible Note into the shares of the Company (the "**Conversion Shares**") at the conversion price of HK\$0.22 per share (subject to anti-dilutive adjustments) during the period from the date of issue of the Convertible Note up to its maturity date. The Convertible Note is non-redeemable prior to the maturity date. The Company has the right (the "**Extension Option**") to extend the maturity date in respect of the outstanding amount of the Convertible Note for another five years.

## 16. Borrowings (Continued)

(d) (Continued)

The Convertible Note was stated at fair value on the date of the Acquisition on 17 June 2010 which amounted to HK\$948,237,000. The fair value was determined based on the valuation carried out by Asset Appraisal Limited. The Convertible Note contains three components – liability component, equity component (presented as “Convertible note equity reserve”) and the derivative component in respect of the Extension Option (the “**Derivative Component**”).

The fair value of the liability component of the Convertible Note was calculated using cash flows discounted at a rate based on an equivalent market interest rate for an equivalent non-convertible bond. The fair values of the equity component and the Derivative Component were determined based on the valuation carried out by Asset Appraisal Limited by using binomial valuation model.

The carrying values of the liability component, the equity component and the Derivative Component of the Convertible Note recognised in the consolidated statement of financial position are as follows:

	<b>Liability component (Unaudited) HK\$'000</b>	<b>Equity component (Unaudited) HK\$'000</b>	<b>Derivative Component (Unaudited) HK\$'000</b>
Carrying amount at 1 April 2011	502,120	434,124	(80,342)
Imputed interest expenses (note (i))	25,899	–	–
Change in fair value recognised in profit or loss (note (ii))	–	–	(2,299)
Conversion of Convertible Note (note (iii))	(99,519)	(85,529)	15,828
Carrying amount at 30 September 2011	428,500	348,595	(66,813)

## 16. Borrowings (Continued)

(d) (Continued)

Notes:

- (i) The liability component is subsequently measured at amortised cost using effective interest method by applying an effective interest rate of 12.91% per annum. Imputed interest expense of approximately HK\$25,899,000 (note 7) (six months ended 30 September 2010: HK\$18,638,000) was recognised in profit or loss of the current interim period.
- (ii) The Derivative Component is measured at fair value with changes in fair value recognised in profit or loss. The Derivative Component is carried as derivative financial asset in the consolidated statement of financial position until extinguished on conversion or redemption.
- (iii) During the period, 750,000,000 (six months ended 30 September 2010: 5,000,000) Conversion Shares were issued upon conversion of the Convertible Note in total amount of HK\$165,000,000 (six months ended 30 September 2010: HK\$1,100,000) as detailed in note 17(c). At the time of conversion, the proportional amounts of the convertible note equity reserve, the Derivative Component and the carrying value of the liability component were transferred to share capital and share premium as proceeds for the shares issued.

## 17. Share Capital

	At 30 September 2011 (Unaudited)			At 31 March 2011 (Audited)		
	Par value HK\$	Number of ordinary shares	Nominal value HK\$'000	Par value HK\$	Number of ordinary shares	Nominal value HK\$'000
<b>Authorised</b>						
Balance at beginning of the period/year	0.05	50,000,000,000	2,500,000	0.05	2,000,000,000	100,000
Increase	-	-	-	0.05	48,000,000,000	2,400,000
Balance at end of the period/year	0.05	50,000,000,000	2,500,000	0.05	50,000,000,000	2,500,000
<b>Issued and fully paid</b>						
Balance at beginning of the period/year	0.05	7,127,980,000	356,399	0.05	825,880,000	41,294
Shares issued upon exercise of share options	-	-	-	0.05	2,100,000	105
Shares issued under placing (notes (a) and (b))	0.05	1,320,000,000	66,000	0.05	3,800,000,000	190,000
Issue of Consideration Shares	-	-	-	0.05	1,970,000,000	98,500
Conversion of Convertible Note (note (c))	0.05	750,000,000	37,500	0.05	530,000,000	26,500
Balance at end of the period/year	0.05	9,197,980,000	459,899	0.05	7,127,980,000	356,399

## 17. Share Capital (Continued)

Notes:

- (a) On 13 April 2011, the Group completed a placing (the "**Placing 2**") of 1,320,000,000 new shares of the Company at HK\$0.067 per share. Proceeds generated from the Placing 2 amounted to HK\$88,440,000 (before share issue expenses of HK\$1,776,000). The issue of shares under Placing 2, before offsetting the share issue expenses, resulted in the increase in share capital and share premium account of the Company by HK\$66,000,000 and HK\$22,440,000 respectively. The net proceeds is intended to be utilised as general working capital of the Group.
- (b) On 17 June 2010, as one of the conditions to the Acquisition, the Group completed a placing (the "**Placing 1**") of 3,800,000,000 new shares of the Company at HK\$0.12 per share. Gross proceeds generated from the Placing 1 amounted to HK\$456,000,000. Part of the proceeds was used for financing the settlement of the cash consideration for the Acquisition. The issue of shares under Placing 1, before offsetting the share issue expenses, resulted in the increase in share capital and share premium account of the Company by HK\$190,000,000 and HK\$266,000,000 respectively.
- (c) During the current interim period, the Noteholder converted the Convertible Note in total amount of HK\$165,000,000 at the conversion price of HK\$0.22 per share whereby a respective total number of 750,000,000 Conversion Shares were issued (note 16(d)).

## 18. Share-based Compensation

The movements of the share options granted by the Company during the current and last interim periods are as follows:

2011			Number of share options				
Grantees	Options grant date	Exercise price per share HK\$	At				At
			1 April 2011	Granted	Exercised	Forfeited	30 September 2011
			'000	'000	'000	'000	'000
Directors	25 August 2009	0.385	2,600	-	-	-	2,600
	25 October 2010	0.171	315,000	-	-	(63,750)	251,250
			317,600	-	-	(63,750)	253,850
Employees	25 August 2009	0.385	650	-	-	-	650
	25 October 2010	0.171	85,000	-	-	-	85,000
			85,650	-	-	-	85,650
Suppliers of services or goods	18 February 2009	0.148	48,000	-	-	-	48,000
	25 August 2009	0.385	600	-	-	-	600
	25 October 2010	0.171	160,000	-	-	-	160,000
			208,600	-	-	-	208,600
Total			611,850	-	-	(63,750)	548,100
Weighted average exercise price (HK\$ per share)			0.171	-	-	0.171	0.170
2010			Number of share options				
Grantees	Options grant date	Exercise price per share HK\$	At				At
			1 April 2010	Granted	Exercised	Forfeited	30 September 2010
			'000	'000	'000	'000	'000
Directors	25 August 2009	0.385	3,200	-	(600)	-	2,600
Employees	25 August 2009	0.385	1,700	-	(300)	(200)	1,200
Suppliers of services or goods	18 February 2009	0.148	48,000	-	-	-	48,000
	25 August 2009	0.385	1,800	-	(1,200)	-	600
			49,800	-	(1,200)	-	48,600
Total			54,700	-	(2,100)	(200)	52,400
Weighted average exercise price (HK\$ per share)			0.177	-	0.385	0.385	0.168

## 18. Share-based Compensation (Continued)

No share options were granted during the current and last interim period.

The amount of share-based compensation expense arising from share options granted on 25 October 2010 was HK\$7,038,000 (six months ended 30 September 2010: Nil) in current period. The share-based compensation in respect of the share options granted to the directors and employees amounting to HK\$4,667,000 (six months ended 30 September 2010: Nil) and to consultants amounting to HK\$2,371,000 (six months ended 30 September 2010: Nil) were recognised as administrative expenses. The corresponding amount of HK\$7,038,000 (six months ended 30 September 2010: Nil) has been credited to the share option reserve. No liabilities were recognised as those are equity-settled share-based payment transactions.

During the current interim period, 63,750,000 unvested share options granted to a director were forfeited. During last interim period, 200,000 share options granted to directors, consultants and employees were forfeited and the corresponding share option expenses of HK\$29,000 was transferred from share option reserve to retained profits.

The number of outstanding share options which are exercisable as at 30 September 2011 was 191,850,000 (at 30 September 2010: 52,400,000) which represent approximate 2.09% (at 30 September 2010: 0.79%) of the Company's shares in issue on that date. The exercise in full of these share options would result in the issue of 191,850,000 (at 30 September 2010: 52,400,000) additional ordinary shares of the Company including additional share capital of HK\$9,593,000 (at 30 September 2010: HK\$2,620,000) and share premium of HK\$22,934,000 (at 30 September 2010: HK\$6,178,000).

## 19. Commitments

### (a) Operating lease commitments

The future aggregate minimum lease rental payable under non-cancellable operating leases in respect of land and buildings was as follows:

	<b>At 30 September 2011 (Unaudited) HK\$'000</b>	At 31 March 2011 (Audited) HK\$'000
Within one year	<b>6,586</b>	3,121
In the second to fifth years, inclusive	<b>5,057</b>	3,902
	<b>11,643</b>	7,023

The Group leases certain properties under the operating lease. The leases run for an initial period of two to three years (at 31 March 2011: two to three years), with an option to renew the leases and renegotiate the terms at the expiry date. The leases do not include any contingent rentals.

### (b) Capital commitments

	<b>At 30 September 2011 (Unaudited) HK\$'000</b>	At 31 March 2011 (Audited) HK\$'000
Purchase of property, plant and equipment (note)	<b>27,835</b>	29,343
Acquisition of technical know-how	<b>2,703</b>	2,703
Other commitments related to exploration and evaluation activities	<b>849</b>	2,307
	<b>31,387</b>	34,353



## 19. Commitments (Continued)

### (b) Capital commitments (Continued)

Note:

Pursuant to the tender submitted to the relevant government authority of Mongolia dated 18 August 2006 which was accepted by the government authority on 11 October 2006, TNE has to establish a processing plant for the production of smokeless fuel product at an estimated investment cost of MNT5,835 million (equivalent to approximately HK\$36 million). In connection to this, TNE received subsidies from the government amounted to MNT1,186 million (equivalent to approximately HK\$7.3 million) in aggregate up to 31 December 2008. The tender refers to a number of performance targets including the commencement of operation and production of the processing plant in March 2008, the production of a specified quantity of smokeless fuel per year and the capital injection of MNT5,835 million (equivalent to approximately HK\$36 million) by March 2008. However, the performance targets are not yet achieved up to the date of the Interim Financial Statements.

Based on (i) a contract accomplishment notice dated 8 October 2008 which was signed by TNE and the government authority confirming that the subsidies granted to TNE have been used for the construction of the processing plant and that the government has agreed to provide additional funding for the project; (ii) management has been actively communicating with the government authority regarding revising the existing investment plan as well as seeking for additional subsidies; and (iii) the legal advisors of the Group, having considered the tender, the contract accomplishment notice and the circumstance arising, opine that it is very unlikely for the government to hold TNE responsible for the performance targets, the directors have assessed the fact that the performance targets as set forth in the tender are not yet achieved does not result in the significant financial impact to the Group. The outstanding commitment with reference to the existing investment plan amounted to approximately MNT4,495 million (equivalent to approximately HK\$27.8 million) as at 30 September 2011 is disclosed herein. The entire amount of the government subsidies received were accounted for as non-current liabilities until TNE and the government authority have come into a conclusion on the revised investment plan and the additional subsidies for the processing plan.

## 20. Contingent Liabilities and Litigations

- (a) In prior financial years, the Group received from an ex-subcontractor two claims in respect of two completed projects. During last financial year, a writ of summons was served to a subsidiary of the Company as defendant in respect of the two claims seeking the recovery of a sum of approximately HK\$9.5 million in aggregate. The Group made a counterclaim against the ex-subcontractor for overpayment of approximately HK\$8.6 million. The claims are under legal proceedings. As at 30 September 2011 and up to the date of this report, the legal proceedings are still in progress. There is no material progress in respect of the claims subsequent to the interim reporting period. Based on the advice from the legal advisers of the Group, the directors believe that the Group has a good case not only to defend but also to counterclaim the overpaid amount. Accordingly, the directors consider that the claims from the ex-subcontractor will unlikely result in any material financial impact on the Group.
- (b) On 23 March 2011, two of the Company's directors and others (the "**Plaintiffs**") commenced legal proceedings to claim against the Company and other directors for various relief including an injunction preventing the Company from proceeding with the proposed placing of shares pursuant to the resolution purportedly passed by the Board on 21 March 2011. The Plaintiffs have not claimed against the Company for damages and the liabilities of the Company are limited to costs at this stage. The Plaintiffs have made an application for an interlocutory injunction. However, up to the date of this Interim Financial Statements, the Plaintiffs have not fixed a hearing date for the application of interlocutory injunction. Based on the advice of the Senior Counsel retained by the Company, the Plaintiffs' application for injunction has little hope of success. As a matter of fact, the placing of shares has been completed on 13 April 2011 (note 17(a)).
- (c) Apart from the above, as at 30 September 2011, a number of lawsuits and claims arising from the normal course of business were lodged against the Group which remain outstanding as at the date of this Interim Financial Statements. Claim amounts are not specified in the applications of these lawsuits and claims. In the opinion of the directors, sufficient insurance coverage are maintained to cover the losses, if any, arising from these lawsuits and claims and therefore the ultimate liability under these lawsuits and claims would not have a material adverse impact on the financial position of the Group.

## 21. Related Party Transactions

### (i) Transactions with a related company

	<b>Six months ended 30 September</b>	
	<b>2011 (Unaudited) HK\$'000</b>	2010 (Unaudited) HK\$'000
Rental expenses for office premises paid to Grand Media Limited	<b>492</b>	492

The directors of the Company, Mr. Yuen Chow Ming, Mr. So Yiu Cheung and Mr. Yuen Wai Keung, have equity interests of 34%, 33% and 33%, respectively in the above related company.

### (ii) Key management personnel

Included in staff costs are key management personnel compensation which comprises the following categories:

	<b>Six months ended 30 September</b>	
	<b>2011 (Unaudited) HK\$'000</b>	2010 (Unaudited) HK\$'000
Salaries, allowances and benefits in kind	<b>5,398</b>	6,417
Equity-settled share-based compensation	<b>3,408</b>	–
Post-employment benefits	<b>86</b>	86
	<b>8,892</b>	6,503