

MEC

MONGOLIA ENERGY CORPORATION

蒙古能源有限公司

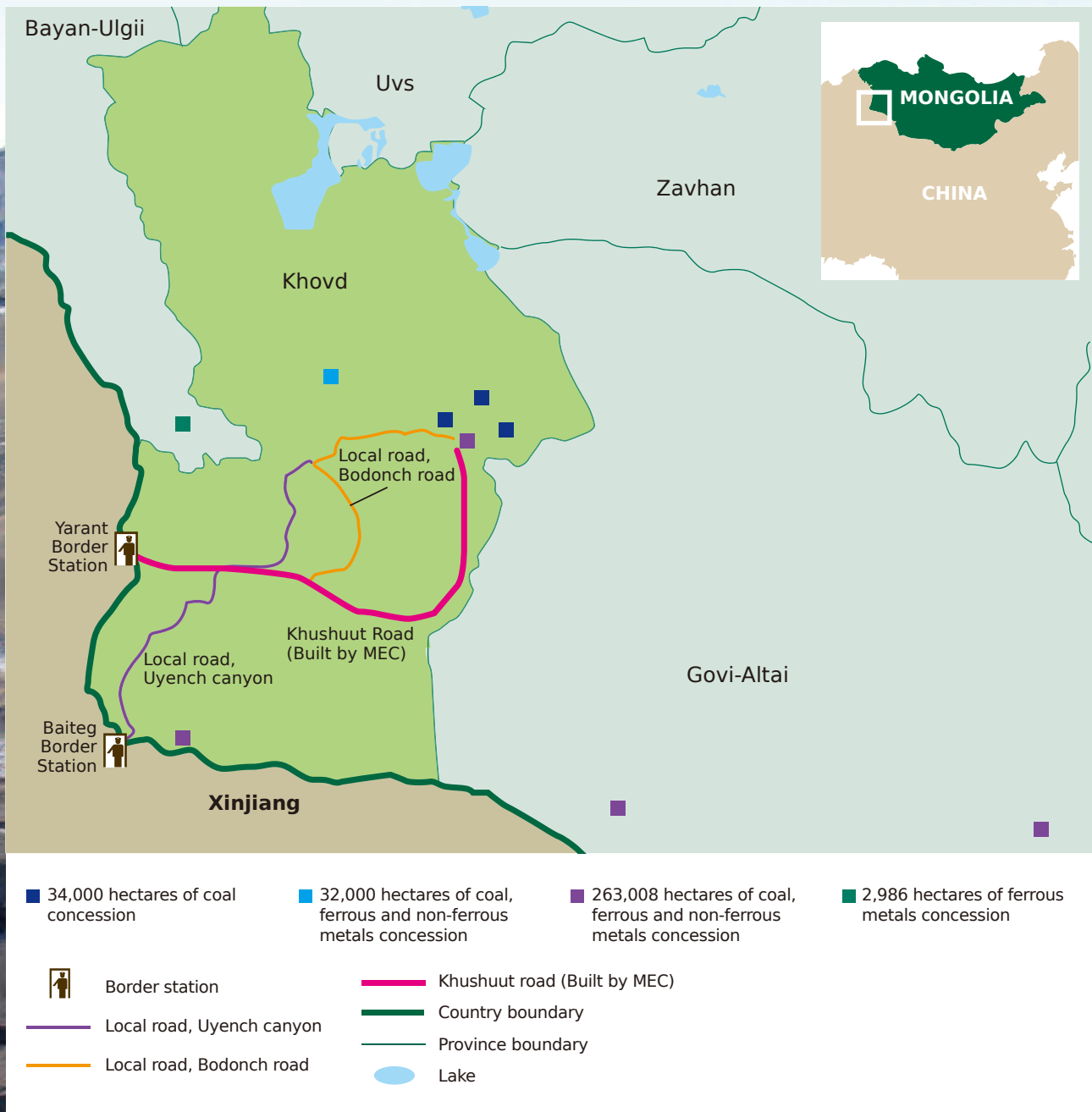
Incorporated in Bermuda with limited liability
Stock Code: 276

Annual Report 2011



— ENERGY — RESOURCES — DEVELOPER —

MEC's Western Mongolia Concessions



Mongolia is an independent country located in east and central Asia, bordering Russia to the north and China to the south, east and west. In terms of volume and variety of mineral resources, Mongolia ranks among the richest countries, possessing prospected deposits of ferrous, non-ferrous, rare, precious and light metals as well as rare earth elements. There are also numerous deposits of non-metallic minerals and fossil fuels. The most important minerals in terms of economic value are copper, molybdenum, fluorite, coal, gold and rare elements. (Source: Government of Mongolia)

Since 2007, MEC has entered into various acquisitions of concessions for resources. We have an aggregate concession areas of approximately 330,000 hectares for coal, ferrous and non-ferrous metal resources in Western Mongolia at Khushuut, Darvi, Gants Mod, Olon Bulag, Govi-Altai and Bayan-Ulgii.



Contents

12	Chairman's Statement
15	Management Discussion and Analysis
28	Investor Relations Report
30	Sustainability Report
34	Corporate Governance Report
44	Directors' Profiles
46	Senior Management Profiles
48	Directors' Report
59	Independent Auditor's Report
61	Financial Statements
123	Five Years Summary of Results, Assets and Liabilities
124	Corporate Information

Caution Regarding Forward-Looking Statements

This Annual Report contains certain forward-looking statements and opinions with respect to the operations and businesses of MEC. These forward-looking statements and opinions relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates and are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will or other results of actions that may or are expected to occur in the future. You should not place undue reliance on these forward-looking statements and opinions, which apply only as of the date of this Annual Report. These forward-looking statements are based on MEC's own information and on information from other sources which MEC believes to be reliable. Our actual results may be materially less favorable than those expressed or implied by these forward looking statements and opinions which could affect the market price of our shares. You should also read the risk factors set out under our circulars and announcements for each of the transactions, which are deemed incorporated and form part of this document and as qualification to the statements relating to the relevant subject matters. Neither MEC nor its directors and employees assume any liability in the event that any forward-looking statements or opinions does not materialize or turns out to be incorrect. Subject to the requirements of the Hong Kong Listing Rules, MEC does not undertake to update any forward-looking statements or opinions contained in this Annual Report.



On Our Path...



We are an energy and resources developer. Our vision is to achieve global recognition in the energy and resources sector.

We acquire concession areas with mining and development potential. With an international team of experts, we coordinate all aspects of mine development and production, including exploration, mine design and extraction within international standards. Our projects will be implemented in a sustainable manner.



We currently own approximately 330,000 hectares of concession areas in Western Mongolia at Khushuut, Darvi, Gants Mod, Olon Bulag, Govi-Altai and Banyan-Ulgii for coal, ferrous and non-ferrous metals resources. We also have an interest in an oil and gas project in Southern Mongolia. Our principal project is the Khushuut Coking Coal Project located in Khovd province, Western Mongolia.

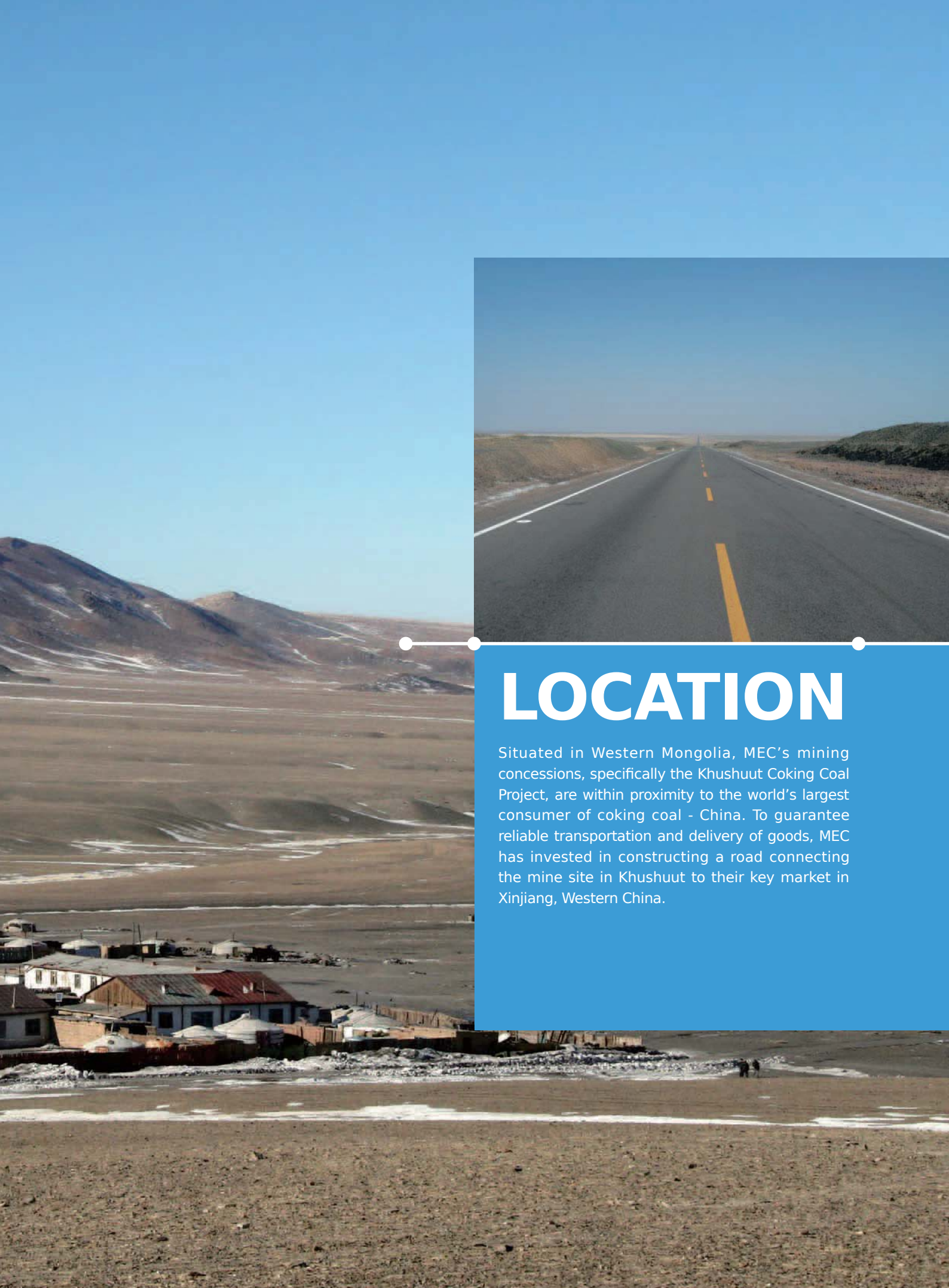


RESOURCES

MEC's Western Mongolia resource asset is abundant in high quality coking coal and other natural resources. The demand of coking coal has been extremely high and continuously increasing around the world, especially in China. With its possession of such a large quantity of high quality coking coal located close to the key Chinese market, MEC is placed in an advantageous position within the industry.







LOCATION

Situated in Western Mongolia, MEC's mining concessions, specifically the Khushuut Coking Coal Project, are within proximity to the world's largest consumer of coking coal - China. To guarantee reliable transportation and delivery of goods, MEC has invested in constructing a road connecting the mine site in Khushuut to their key market in Xinjiang, Western China.



COMMITMENT

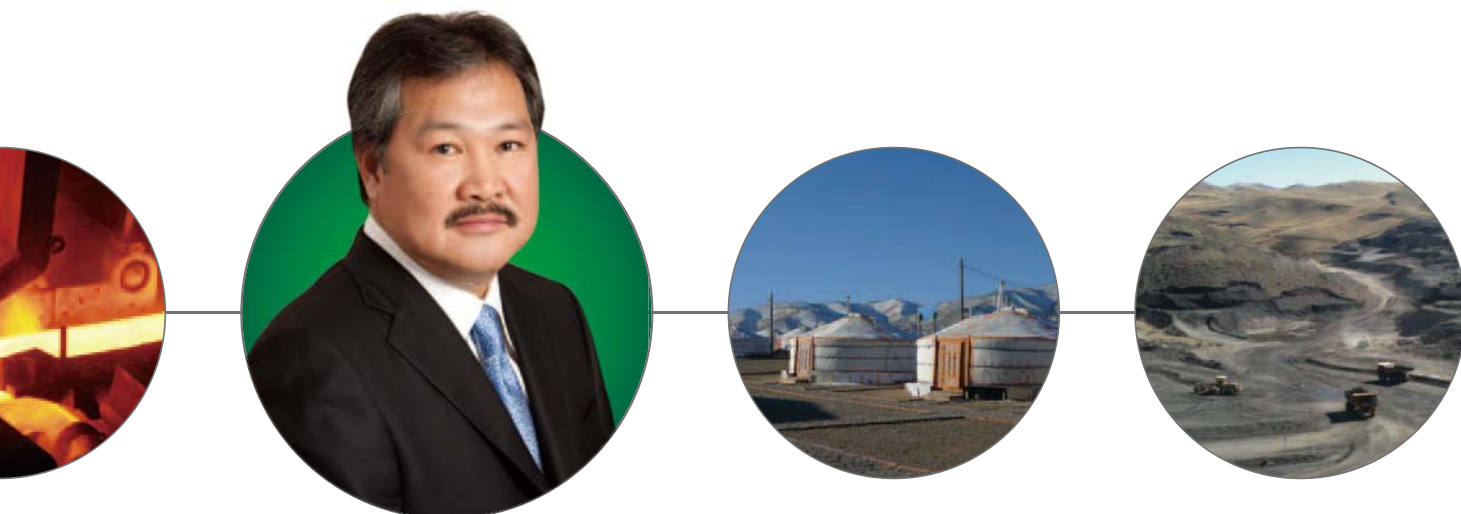
MEC is supported by a team of devoted and driven staff, which is crucial to the success of the Company. The Company will continue to take on social responsibilities and contribute to the community. MEC strives to increase the living standard of the workforce and provide a better working environment. The Company is committed to improve the quality of living for the local community and share a better future with the Mongolian society.







Chairman's Statement



Our Path FORWARD

Dear Shareholders,

As reported in the last interim report, trial production and shipments from the Khushuut Coking Coal Project commenced in October 2010. These trial shipments gave the Company, government officials, and other relevant parties the opportunity to test the delivery logistics from the mine to the border and continuing to customers in Xinjiang. The knowledge gained from this experience provides valuable insights to improve the efficiency of the logistics when we begin larger shipments. We are now completing the finishing touches for the Khushuut Road and expect approval to use the road for larger volumes shortly to commence our formal commercial production.

During the year, we continued exploration at the Khushuut Coking Coal Mine to improve our understanding of the coal quality and geologic conditions. As highlighted in our CEO Technical Summary dated 17 June 2011, the exploration program increased our in-place coal resources by 5.4%. Also highlighted in the same update, our anchor customer, Bayi Steel, received and processed the trial shipments and confirmed our coking coal products to be of a prime quality, ideal for the manufacturing of premium coke, an essential ingredient for producing steel of the highest quality.

Western China, especially Xinjiang, is experiencing high economic growth amid China's Go-West Policy. As a result of the strong growth in demand for infrastructure investments in Xinjiang, many renowned state-owned and private steel manufacturers have announced plans to invest in steel capacity in the

autonomous region. The steel capacity in Xinjiang is expected to increase by 2 to 3 fold in the 12th Five-Year Plan period, i.e. 2011-2015. The increasing investment in steel and infrastructure in Xinjiang will escalate the demand of coking coal, and our high quality Khushuut Coking Coal will be a significant beneficiary. Our recent market study shows that the coking coal price generally is on the uprising trend. With most of our mining assets located in Western Mongolia, we are in an advantageous position to capture this strong appetite for natural resources in Western China.

Mongolia has gained much attention from international investors and media communities as the place to be for mining and resource companies. Many Mongolian companies recently have successfully raised funds in international stock markets such as Hong Kong, and more are planning to do the same. Mongolia as an investment sector has gained much attention from institutional investors worldwide that many investment banks and funds have dedicated teams to cover Mongolia. While Mongolia is growing to become a household name as an investment choice, MEC is also gaining much confidence from the market. We were able to secure financial supports from renowned investors such as Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited, and we were able to renew our financing from Chow Tai Fook Nominee Limited, which will be further discussed in the "Management Discussion and Analysis" section. Apart from our investors, I have strong confidence in MEC and will continue to provide my support strategically and financially on its development.

In our goal to achieve long-term sustainable returns for our stakeholders, we launched our sustainability program last year. We further developed the program by introducing various measures and guidelines through the operations of the Group. We highlighted some short-term results in the "Sustainability Report" section and we will continue our efforts to reinforce the sustainability program.

Significant progress was made on all fronts during last year. The Company will overcome all obstacles in order to achieve the commencement of commercial production at Khushuut as soon as possible. We also continue our efforts in our other concessions and will look for suitable investment opportunities in order to grow the Company further. With our dedicated team and expected growth potentials in Western China and Western Mongolia, we will continue to strive to maximize returns for our stakeholders.

I would like to thank our shareholders, our dedicated staff and other partners involved in our various activities for their support and look forward to your continuing support for MEC.

Lo Lin Shing, Simon

Chairman

28 June 2011





**MANAGEMENT
DISCUSSION
AND ANALYSIS**

Management Discussion and Analysis

RESULTS ANALYSIS

During the financial year ended 31 March 2011 (the “**Financial Year**”), we focused on our Khushuut Coking Coal Project which was in a trial stage of production.

Turnover for the Khushuut Coking Coal Project will be formally recognised when it commences commercial production. Thus, the revenue from the trial shipments during the Financial Year was not recognised in the Consolidated Income Statement.

Staff costs increased to HK\$97.0 million (2010: HK\$63.2 million). Included in the staff costs was share-based payment expenses of HK\$23.4 million (2010: HK\$6.7 million) in relation to 11.8 million share options granted to the Directors and employees of the Group on 9 April 2010.

The finance costs increased to HK\$149.5 million (2010: HK\$91.6 million). Two convertible notes with aggregate principal value of HK\$766.8 million were issued during the Financial Year accounted for the increase in finance costs.

A fair value gain of HK\$71.8 million (2010: HK\$Nil) on derivative component was recognised. It was arising from the new convertible notes issued during the Financial Year. These convertible notes contain two components, a liability component and a derivative component. The derivative components were measured at fair value at their respective issue dates and re-measured at the balance sheet date. The resulting changes in fair value were then recognised in the Financial Year.

BUSINESS REVIEW

We did not acquire any new project or subsidiary in relation to our energy and resources business during the Financial Year.

The following disposal and termination were completed during the Financial Year:

- (i) In May 2010, we terminated the acquisition of a new Falcon 900EX aircraft. This is consistent with our focus as an energy and resources developer after the disposal of Glory Key Investment Limited in December 2009 and the cessation of our aircraft charter and aircraft leasing businesses in March 2010; and
- (ii) In August 2010, we disposed Business Aviation Asia Group Limited (“**Business Aviation**”), a wholly owned subsidiary of the Company at a consideration of HK\$38,239,645. The principal asset of Business Aviation was its 43% equity interest in a company in the People’s Republic of China engaging in the business of aircraft charter, aircraft management, aircraft maintenance and related business. The disposal was completed in September 2010.

Our principal project is the Khushuut Coking Coal Project which was under trial production during the Financial Year.

Progress of the Khushuut Coking Coal Project

In the last interim report, we highlighted that trial production and the first shipment from the Khushuut Coking Coal Project began in October 2010. Since then, the Company continued the production of coking coal through its indirectly wholly owned subsidiary in Mongolia, MoEnCo LLC. The small volume trial shipments continued from October 2010 through the end of the Financial Year for a total of approximately 5,300 tonnes of raw coking coal. Ramp up of coal shipments was slower and smaller than expected and was attributed to various factors including the completion and acceptance of the Khushuut Road. The Khushuut Road is a roadway of approximately 310 km connecting the Khushuut coal mine and the Yarant/Takeshenken border and is the main route for our coal transportation. All issues are being attended to and we are working closely with our principal contractor and government departments to complete the outstanding issues. Particulars are detailed in the paragraph of Khushuut Road below. We hope to satisfy the compliance issues with the Mongolian requirements as soon as possible to commence formal commercial production. Our contract miner, Leighton, is in place and prepared to ramp up production as soon as the approval is received.

Subsequent to the disclosure in the last interim report, the Yarant/Takeshenken border has effectively become a permanent border, which opens on a full month schedule, since January 2011. It operates eight hours per day and five days per week. The Company is the first to transport coal from Western Mongolia to Xinjiang, the PRC via this border-crossing. The introduction of this type of cross border trade presents the Company and border officials with various challenges in the delivery process. As the border-crossing of bulk materials was new to all parties concerned, including the border officials of both sides and the transportation companies, the trial shipments have provided a greater understanding of issues that need to be addressed to expand the capacity and improve operating efficiency. We are working with the Mongolian government officials for an expansion of the border, longer and flexible opening hours and continued improvement of operational efficiency to increase the border-crossing capability to meet our long term production capabilities.

Market conditions for the Khushuut coking coal product remain favorable and encouraging. According to the CEO Technical Summary dated 1 September 2010 and the market study for the Khushuut coking coal conducted by Shanxi Fenwei Energy Consulting Co., Ltd. last year, each clean tonne of our product in the C seam can achieve a selling price between RMB1,290 and RMB1,390 (VAT excluded) in 2010 at Urumqi area, the PRC, where the customers are located at. Initially, we will be selling raw coal product until the coal processing facility is in place. The actual pricing of the coal is negotiated based on various factors including, recovery from raw coal to clean coal, ash content, washing and transportation costs etc., between the customers and the Company prior to actual delivery. We are working on various solutions such as raw coal screening and installation of a rotary breaker at the mine site that will improve the consistency and overall raw coal quality shipment and better pricing.

We have secured sales agreements for up to 2 million tonnes of coking coal product for this year from two customers depending on our production status and shipping capacity. Apart from that, we have been approached by other potential customers. The Group is confident on its high quality coking coal product and the market conditions.

Coal Resources and Quality Review

Since the initial exploration program in 2007, the Company has completed several additional exploration programs in 2008, 2009 and in 2010. These programs have been for the primary purpose of improving the understanding of the geological structure and expected coal quality. John T. Boyd Company has been involved in the exploration work and completed an updated geological model of the Khushuut coal deposit during the Financial Year.

The updated resource estimate for in-place coal shows a 5.4% increase from the original estimate in June 2008.

Resources Estimate	In-Place Tonnes ('000)		
	Coal	Parting	Seam
June 2008	134,170	15,067	149,237
Update – May 2011	141,456	Not estimated	Not estimated
Increase	5.4%	N/A	N/A

The additional exploration data increased the reliability of the estimate such that the resources in 2008 were classified as indicated (according to JORC Standards) and the revised estimate is classified as 44,503,000 tonnes (31.5%) measured and 96,953,000 tonnes (68.5%) indicated.

The coal resources include both hard and semi-hard coking coal with expected washed product quality specifications (air dried basis) of: 10-11% ash, less than 0.5% sulfur and 16-22% volatile matter.

Khushuut Road

As reported in the last interim report, the Khushuut Road is substantially completed and trial shipments began in last October.

Currently, 304 km out of the 310 km of the road has been built and 295 km out of the 310 km of the road has been paved.

In order to receive Mongolian government's approval of the road and to begin formal commercial production, a few issues are required to be addressed. A 6 km section of the Khushuut Road connecting immediately to the Yarant border has yet been constructed. In the meantime, we are building a temporary road connecting to the border. Additional requirements include the installation of signage and guard rails which will be completed shortly.

We have been working closely with our principal contractor to complete the Khushuut Road as soon as possible for road acceptance and commissioning.

Mine Infrastructure

Infrastructure projects at the Khushuut mine completed during the Financial Year include the mine production office overlooking the pit with facilities for communications, supervision, training and worker amenities. There are two operational camps with over 300 people on site with an operational boiler house, full ablution facilities, and a portable water treatment plant. An on-site coal quality laboratory is operational for quality control prior to shipment and the medical clinic has been moved to a new site within the work camp to more efficiently provide health and medical care for our workers.

Mining Production Update

Mine production commenced in line with the plan with a focus on waste stripping to expose the high quality coal from the C seam as soon as possible. Two initial pits (Phases 1 and 2) identified to have low strip ratio, high quality coking coal are the initial focus of the operations to date.

The mining team has focused on training a predominantly local workforce during the Financial Year by introducing international standard training packages and modular training facilities. These on-site training facilities provide the essentials to train the workforce consisting of a significant proportion of local citizens providing employment opportunities to the local citizens and reducing the cost of transport and accommodation usually associated with labor brought in from other parts of the country. This practice is in line with the Company's sustainability strategy such that it is the Company's priority to help develop and provide job opportunities to the local community.

Raw Coal Quality Control and the Rotary Breaker

We have completed the design and purchasing of related structures and equipment for the installation of a rotary breaker. We are now pending completion of the permit application and approval process to commence installation of the rotary breaker and the related facilities.

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, we have conducted general reconnaissance and initial explorations in some areas for potential resources in the Financial Year. We will continue the exploration and develop plans for these potential resources.

SUBSEQUENT BUSINESS DEVELOPMENT

Chow Tai Fook Convertible Note

Pursuant to the convertible note issued to Chow Tai Fook Nominee Limited (“**CTF**”) in April 2008 (the “**2008 CTF Note**”), the Company was required to redeem the 2008 CTF Note on 30 April 2011. By a letter issued by CTF dated 29 April 2011, CTF consented to extend the date of repayment of the 2008 CTF Note from 30 April 2011 to 15 June 2011.

On 12 May 2011, the Company and CTF entered into a subscription agreement pursuant to which CTF agreed to subscribe for a 3% coupon convertible note with an aggregate principal amount of HK\$2,000,000,000 at the subscription price of HK\$2,000,000,000 (the “**2011 CTF Note**”). The 2011 CTF Note has a maturity period of three years and can be converted into 1 ordinary share of the Company for every HK\$2 at the holder’s option at any time between the issue date and the maturity date.

The subscription was completed on 15 June 2011 and the proceeds have been used by the Company to redeem the 2008 CTF Note in full.

Support from the local government for our Project

The Mongolian government has been very supportive towards foreign investments in the mining sector and the Company has been benefiting from these government policies since we started developing the Khushuut project years ago. For instance, the Yarant border has become a permanent border since January 2011.

MoEnCo LLC, our principal subsidiary in Mongolia entered into a co-operative agreement with the Khovd Province on 7 April 2011 which we received the support from the local government where our Khushuut Mine is located.

The purpose of this agreement is to enhance cooperation between the parties and to provide successful implementation of our projects and investments planned by MoEnCo LLC. As part of a responsible Company, we are required to protect the environment, develop infrastructure for mine usage and to provide local community and economic support by creating more job opportunities.

FINANCIAL REVIEW

1. Liquidity and Financial Resources

During the year, the Group’s capital expenditure and working capital were mainly funded from net proceeds from the issuance of two convertible notes with an aggregate principal value of HK\$766.8 million.

The Group had conducted the following fund raising exercises for its operation of the Khushuut Coking Coal Project and general working capital:

- (a) On 27 April 2010 we entered into a subscription agreement with Golden Infinity Co., Ltd (“**Golden Infinity**”) whereby Golden Infinity as a subscriber agreed to subscribe for a 3.5% coupon convertible note with an aggregate principal amount of HK\$300 million (the “**GI Convertible Note**”). The subscriber is a company wholly and beneficially owned by Mr. Lo Lin Shing, Simon (“**Mr. Lo**”) (Chairman and Executive Director of the Company). The subscription was completed on 6 September 2010. The GI Convertible Note has a maturity period of three years and can be converted into 1 ordinary share of the Company for every HK\$4 at the holder’s option at any time between the issue date and the maturity date.

(b) On 3 November 2010 we entered into a subscription agreement with Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited whereby these subscribers agreed to subscribe for 3.5% coupon convertible notes with an aggregate principal amount of HK\$466.8 million (the “**SF Convertible Notes**”). The SF Convertible Notes subscription was completed on 12 November 2010. The SF Convertible Notes have a maturity period of three years and can be converted into 1 ordinary share of the Company for every HK\$3.4 at the holders’ option at any time between the issue date and the maturity date. The subscribers have not exercised their option to subscribe for the second note under the relevant subscription agreement.

The borrowings of the Group as at 31 March 2011 comprised convertible notes and advances from a Director amounting to HK\$2,741 million (2010: HK\$1,963 million). The increase was due to the issue of the new convertible notes and accrual of effective interest rates in the range of 11.92% to 14.38%. Of the total borrowings, 74 per cent was repayable within 12 months and the rest was falling in the 1 to 3 year maturity profile.

As at 31 March 2011, the cash and bank balances were HK\$10.2 million (2010: HK\$121.3 million). The decline in cash balances was largely caused by the use 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, the PRC and the repayment of HK\$100 million for the loan note due in January 2011 with which the Group acquired the Khushuut Project in 2007. Mr. Lo has agreed to provide continuous financial support to the Group so as to enable the Group to continue day-to-day operations as a going concern.

The liquidity ratio as at 31 March 2011 was 0.05 (2010: 1.07).

2. Investment in Listed Securities

As at 31 March 2011, the Group’s held-for-trading investments comprised of equity securities listed in Hong Kong with a fair value of HK\$37.6 million (2010: HK\$45.2 million).

3. Charge on Group’s Assets

There were no charges on the Group’s assets for each of the two years ended 31 March 2010 and 2011.

4. Gearing Ratio

As at 31 March 2011, the gearing ratio of the Group was 0.17 (2010: 0.13) 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 31 March 2011, the Group did not have significant contingent liabilities (2010: Nil).

RISK FACTORS FACING US

The Group's business may from time to time face with certain risk factors. Possible risk factors which may be faced by the Group include, among others, the following:

Cyclical nature of coal markets, ferrous and non-ferrous metals markets and fluctuations in coal, ferrous and non-ferrous metals prices

The revenue of our operation depends on successful commercial production of coal, ferrous and non-ferrous resources products in our concession areas.

Therefore, our future business and results of operations are dependent on the supply of and demand for coal, ferrous and non-ferrous resources globally, in particular, the PRC.

The fluctuation in supply and demand of these resources can be caused by numerous factors beyond the Group's control, which include but not limited to:

- (i) global and domestic economic and political conditions and competition from other energy sources; and
- (ii) the rate of growth and expansion in industries with high demand of coal, ferrous and non-ferrous resources, such as steel and power industries.

There is no assurance that the PRC, which we assume as our major market, demand for coal, coal-related products, ferrous and non-ferrous resources products will continue to grow, or that the demand for these products will not experience excess supply.

Development of a mining project may take time and factors affecting its development

In a nutshell, development of a mining project will take time and this includes going through the development process of reconnaissance, exploration, deposit analysis and mine planning. There is no guarantee that a planning development may overcome all hardships encountered during these processes. Ultimate commercial viability of a project will depend on whether the deposit is of the desired attributes, proximity to potential markets, availability of infrastructure and transportation networks, labour costs and availability, competition of other energy resources, global economic conditions. Governments' regulations and policies such as taxes and royalties may also have a direct or indirect impact on encouraging or discouraging investment in the mining sector. Not all planned projects may achieve the intended economic benefits or demonstrate commercial feasibility.

Significant and continuous capital investment

The mining business requires significant and continuous capital investment. Planned mine exploration and coal production projects may not be completed as planned, may exceed the original budgets and may not achieve the intended economic results or commercial viability.

Actual capital expenditures for the projects may also differ from planned in the course of development. Such factors include locality and geology of the mine sites, method of excavation, availability of transportation networks, the ancillary infrastructure requirements and distance to the markets, etc.

Policies and regulations

Mining business is subject to extensive governmental regulations, policies and controls. There can be no assurance that the relevant government will not change such laws and regulations or impose additional or more stringent laws or regulations. Failure to comply with the relevant laws and regulations in any mine development and coal production projects may adversely affect the Group. The following is some of the relevant laws and regulations in Mongolia:-

For example, under the Minerals Law, the State can claim up to 50% interest in entities holding so-called “deposits of strategic importance”. The Minerals Law also states that a mineral deposit is of strategic importance if a deposit may have a potential impact on natural security, economic and/or social development of the country at regional and national levels, or that is capable of producing greater than 5% of the gross national product of any given year. So far this does not affect our Khushuut Coal Mine but there is no assurance that this will not be happened in the future.

In addition, under the Minerals Law, mineral exploration licences are granted for an initial period of three years. Holders may apply for an extension of the licences for two successive additional periods of three years. Renewal of licences must be made timely and subject to payment of annual licence fee. The Minerals Law also states the licence holders are obligated to meet a minimum exploration expenditure requirement. Failure to meet these requirements may subject to licence cancellation by the Mongolian authorities.

The Mongolian authorities may also impose moratorium on any licences if the holders are in breach of any relevant laws in Mongolia.

On 16 July 2009, the Parliament of Mongolia enacted the Mining Prohibition Law (the “**MPL**”) which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas and areas adjacent to rivers and lakes. Under the MPL, new exploration licences and mining licences overlapping the defined prohibited areas will not be granted, while previously granted licences that overlap the defined prohibited areas will be terminated within five months following the adoption of the law. The MPL further states that affected licence holders shall be compensated.

Pursuant to the MPL, the Mongolian government was supposed to define the boundaries of the relevant prohibited areas by 16 October 2009 but it had not done so by the prescribed time. Details as to how the compensation is determined have not been specified in the MPL and the Mongolian government has not yet released any further guidance on how to interpret the MPL. We have several mining and exploration licences which may be affected under the MPL on a preliminary basis as set out in the Financial Statement. Upon our enquiry with The Mineral Resources Authority of Mongolia (the “**MRAM**”), the MRAM replied that the boundary lines of the restricted areas as defined by the MPL have not been determined nor announced to the public and we were also informed that we can continued to operate normally under Minerals Law of Mongolia. Since the passing of the MPL on 16 July 2009, our mining and exploration activities are conducted as usual and have not been affected by the MPL. Based on the best knowledge of the management, none of our existing licences have been revoked under the MPL.

The MPL has attracted opposition from the Mongolia National Mining Association and other groups. The Group also understand that a group of parliamentarians has proposed amendments to the MPL to reduce its impact on the environmentally sound mining operations. We will closely monitor the development and make timely disclosure as appropriate.

Country risk

The business of the Group is currently in Mongolia with the target market in the PRC.

There can be a risk relating to the likelihood that changes in the business environment will occur which reduces the profitability of doing business in Mongolia and/or the PRC. Changes of political and economic conditions in either Mongolia or the PRC may adversely affect the Group.

There is no assurance that the Group's assets or business will not be subject to nationalisation, requisition or confiscation due to change of laws or political conditions.

Environmental protection policies

Mining and exploration business is subject to Mongolian environmental protection law and regulations. Under Article 66 of the Minerals Law, if a licence holder violates environmental protection legislation, the entity holding the licence may be fined or its activities suspended until it has complied with environmental and other regulations. In a worst case scenario, a licence may be revoked for non-compliance pursuant to Article 56 of the Minerals Law.

If the Group fails to comply with existing or future environmental laws and regulations, the Group may be required to take remedial measures, which could have a material adverse effect on our business, operations, financial condition and results of operations.

Operational risks

Leighton LLC is our mine contractor responsible for the mining operations of our Khushuut Coking Coal Project. If there is any unforeseeable event which renders Leighton LLC unable to continue providing its mining services to us and no effective solution is implemented, our operation may be seriously impacted.

Our operation is also dependent on the fuel supply condition in Mongolia. Recently, it was reported that Russia, the primary supplier of fuel to Mongolia, has substantially cut fuel exports to Mongolia due to its own fuel deficit situation. The cutting of the fuel exports has caused a tense supply of fuel in Mongolia and the price of fuel has been soaring since then. Although we have managed to have fuel supply from our suppliers, the position is not guaranteed and our operation may be affected if the shortage of fuel supply is not improved shortly in the future.

OUTLOOK

In October 2010 we initiated our trial production as reported in the last interim report. We have experienced more challenges than expected in forging our way to formal production. Completion of the Khushuut Road and all necessary ancillary structures in compliance with the Mongolian requirements must be completed and approved by the government prior to full commissioning of the road. We are working closely with the Mongolian authorities to expand the export handling capacity for our future coal shipment in bulk quantity. We, as all other companies in Mongolia, are facing a shortage of fuel supply in Mongolia and its effect on our costs of production. These are only a few of the challenges that we must overcome in order to bring our hard work to fruitful results. Nevertheless, we are proud of being one of the few companies which has determined to become and focus on the energy sector and is still working confidently towards our goal.

With the support of the local government and our professional teams, we will concentrate on bringing formal commercial production to the Khushuut Coking Coal Mine as soon as possible. Following the formal commencement of commercial production, we will work on the supporting facilities and infrastructures such as coal handling processing plant and power plant to upgrade the quality of our coal products. As we have premium quality coking coal and demand from the market, we are confident in our future.

We will also consider any opportunity of co-operation with potential investors and other potential projects which will have synergy to our business operation. We will continue our effort to strengthen our operations and business potential to enhance maximum development of the Group and return to shareholders.

Exploration and Mining Concessions of the Group

The information of the Group's exploration and mining concession areas in Western Mongolia for coal, ferrous and non-ferrous resources as at 31 March 2011 is as follows:

Licence (licence no.)	Location (resources)	Mine area (hectare)*	Licence date	Licence valid period#	Development status
	(coal resources)				
1414A, 1640A, 4322A, 6525A, 11887A, 11888A, 11889A, 11890A, 11515X	Khushuut, Khovd, Western Mongolia	34,000	Various (please refer to circular of 22 March 2007)	9 years for Exploration Licences (X) ▲ and 70 years for Mining Licences (A) ▲▲	<p>From exploration of over 600 hectares during 2007, MEC demonstrated 460 million tonnes of coal resources of which 181 million tonnes comprise premium coking coal resources.</p> <p>Approximate 141 million tonnes of in-place resources according to JORC standards are reported from further analytical work. Under trial production in 2010-2011.</p> <p>MEC will continue to explore resources in these areas for further resources development potential.</p>
	(coal, ferrous and non-ferrous resources)				
8976X, 15289A, 11628X, 11724X	Gants Mod, Western Mongolia	32,000	Various (please refer to circular of 25 June 2007)	9 years for Exploration Licences (X)	MEC will explore resources in these areas for further resources development potential.
Sub-total Hectares		66,000			



Licence (licence no.)	Location (resources)	Mine area (hectare)*	Licence date	Licence valid period#	Development status
	(coal, ferrous and non-ferrous resources)				
2913A	Olon Bulag, Western Mongolia	38	24 January 2007	70 years for Mining Licence (A)	MEC will explore resources in these areas for further resources development potential.
7460X	Olon Bulag, Western Mongolia	276	24 January 2007	9 years for Exploration Licence (X)	As above.
11719X	Govi-Altai, Western Mongolia	216,644	23 January 2007	9 years for Exploration Licence (X)	As above.
12126X	Govi-Altai, Western Mongolia	41,386	16 January 2007	9 years for Exploration Licence (X)	As above.
12315X	Govi-Altai, Western Mongolia	3,249	2 January 2007	9 years for Exploration Licence (X)	As above.
5309X	Khovd, Western Mongolia	1,415	24 January 2007	9 years for Exploration Licence (X)	As above.
Sub-total Hectares		263,008			
	(ferrous resources)				
14349X	Bayan-Ulgii, Western Mongolia	2,986	24 October 2008	9 years for Exploration Licence (X)	No immediate plan.
14426X	Khuvsgul, Western Mongolia	4,513	19 November 2008	9 years for Exploration Licence (X)	No immediate plan.
Sub-total Hectares		7,499			
Total Hectares		336,507			



* Note: 1 Hectare = 10,000 square metres.

The Exploration Licences are for 3 years with two further extensions of 3 years. The Mining Licences are for 30 years with two further extensions of 20 years.

▲ (X) stands for Exploration Licence

▲▲ (A) stands for Mining Licence

Investor Relations Report

OVERVIEW

MEC is committed to building sustainable and robust investor relations (“IR”). With a broad range of multimedia communication channels, the Company has been effectively communicating its latest development and corporate vision with its existing and potential shareholders. MEC remains committed to maintain its high corporate transparency through timely disclosure of financial results, company updates, corporate announcements and business developments. Moving forward, the Company will continue to conduct investor relations programs that provide investors with effective communications.

Dedicated IR Team

MEC’s dedicated IR Team is comprised of professionally trained individuals with solid financial and communications experience and expertise. The team focuses on the development and implementation of investor relations campaigns and serves as a bridge between the Company and its investors to provide effective two-way communication. The IR team is devoted to handling enquiries from investors, shareholders, media, or others who might be interested in the Company. Through regular and close contacts with investors, the team has helped the Company to address valuable investor concerns and in turn facilitated important investment decisions.

Timely Disclosure

The Company is keen on sustaining a close relationship with its shareholders and the financial community. Latest business developments of the Company are disclosed in a timely manner through public announcements, distribution of press releases and the CEO Technical Summaries, which can be found on the MEC’s corporate website (www.mongolia-energy.com). Moreover, public announcements are available on the website of Hong Kong Exchanges & Clearing Limited (“HKEx”) (www.hkexnews.hk).

IR ACTIVITY REVIEW

Financial Reports

Financial reports are the most important tools for the investment community to study and analyse a company’s performance. Thus, the Company compiles detailed reports with extensive explanations of its financial and operational performances and future outlook.

Enhanced Communication Channels

MEC relies heavily on its corporate website to communicate with shareholders, investors, the financial community, industry insiders and other stakeholders. It is a user-friendly tool for the public to better understand MEC’s operations. A dedicated team is responsible for monitoring and updating the website with news and the latest released information on a regular basis. After the first corporate video released in 2008, the Company is now at the final stage of producing a new corporate documentary video of MEC’s first coal mine project in Khushuut, Western Mongolia, which will clearly capture the daily operations, working environment and happenings at the mine site. Photographs taken at the site are also showcased on the website for viewers to share our success.

Investor Conferences and Roadshows

During the Financial Year, MEC's management participated in numerous investor conferences organized by reputable investment banks such as Citigroup, Bank of America Merrill Lynch, Standard Chartered Bank, HSBC, UBS, Nomura, etc. The Company also went to some major financial hubs, such as Singapore and London, to attend non-deal investor roadshows to expand its international shareholder base and to enhance analysts' coverage.

Investor Meetings

Regular face-to-face meetings and telephone conferences were arranged with investors during the Financial Year. Our management believes direct dialogues with shareholders, potential investors, analysts and fund managers are conducive to better understand their needs and concerns. Effective two-way communication is key to corporate transparency, which ultimately contributes to a company valuation.

Site Visits

For investors to gain a better understanding of the daily operations and working environment of the Company, MEC has arranged site visits for representatives of various institutional investors to its Ulaanbaatar office and coking coal mine in Khushuut, Western Mongolia last year. The Company plans to arrange similar visits in the coming financial year for the media, analysts and investors.

Investor Audits

The Company conducts investor audits regularly to gain in-depth understanding of how investors perceive its operations, valuation, financial performance and future development strategies. The findings provide applicable statistics and valuable references for the Company to improve its investor relations strategies and disclosure quality.

Media Relations

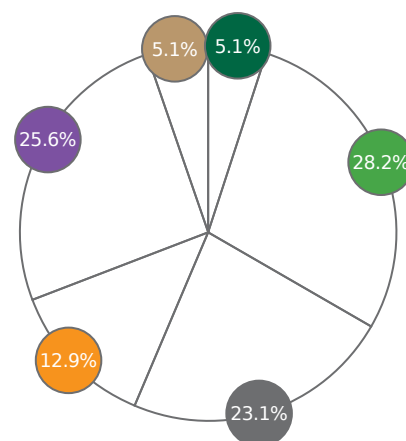
To fully leverage on the media as the main public communication channel with retail and institutional investors, the Company has arranged interviews and site visits for journalists to gain a comprehensive understanding of MEC's business operations and also to grasp in-depth information about the industry from the Company's experts in various specialties.

Gordon Poon

Managing Director of Corporate Development & Investor Relations

28 June 2011

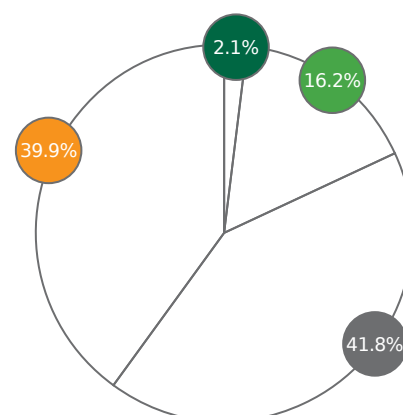
Major IR Events



- Mongolia Site Visit
- Industrial Forum
- Investment Forum
- Roadshow
- Investor Conference
- Media Interview

Total number of events: 39

One-on-one Meetings



- Media
- Research Analyst
- Investment Banker
- Fund Manager

Total number of people: 291

Sustainability Report

Vision

MEC's Vision is to be a leader in environmental and social responsibility in the energy and resources industry. We want our brand to be recognised not only for developing energy and resources, but also as an innovative corporate citizen that integrates our Sustainability Values with Integrity and Responsibility.

Mission

We will carry out the Sustainability Vision through continual assessment of our business operations to determine our plan of action. We will collaborate with the relevant stakeholders to achieve our goals - including our investors, clients, vendors, suppliers, and local communities. Through these collaborations, we hope to inspire and educate our stakeholders on environmental and social responsibility to create a meaningful way of living and working.

Values:

MEC's Sustainability Values are driven by Integrity and Responsibility:

TO CARE

T

ransparency

We believe in prompt and frank disclosure and availability of all relative information to our partners for collaboration. We believe in cooperation and collective decision-making - with no hidden agendas and conditions.

O

ppportunity

MEC intends to seek the best potential outcome in each situation to create a better future for our company and all our stakeholders.

C

ommunity

Our goal is to create a sense of unity through shared common goals and interests not just with our shareholders, but also with our employees and local communities.

A

ction

MEC will do what is necessary to achieve our goals without compromising any of our core values.

R

esponsibility

We strictly abide by our Company's moral obligations and the regulations of our host countries and will always be accountable for our actions.

E

ducation

We take pride in sharing our knowledge with employees, local communities and stakeholders. We believe there is much we can learn from each other.

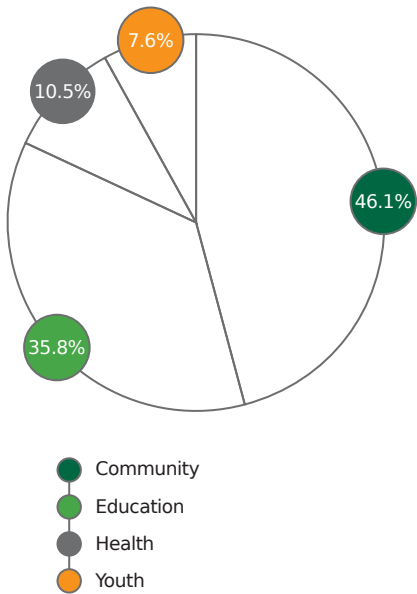
During the Financial Year, MEC has made substantial progress in laying the foundation for our long-term sustainability initiatives. Concrete steps to integrate the principles of sustainable development throughout business operations and the decision-making process have been implemented. Some key accomplishments include: submission of a report to the Global Reporting Initiative's (the "GRI") level C requirements, creating our corporate environmental, health & safety, and social policies, and implementing and documenting The Green Office program for the Hong Kong headquarters. The Green Office program includes waste reduction programs, procurement guidelines, office and property management guidelines, employee guidelines as well as accountability guidelines for future non-government organization ("NGO") partners. MEC aspires to be a leading energy and resources developer and we aim to achieve this by implementing industry best practices and continuing to work with international sustainability strategy companies to ensure the quality of our sustainability programs.

HKEx recently released a voluntary Environmental Social and Governance Reporting Guide (the "ESG Reporting Guide") for all Hong Kong listed companies. As MEC qualified as the GRI level C last year and further developed our sustainability program, we are well prepared to answer to the ESG Reporting Guide as well as other inquiries that we have been receiving from local and international financial institutions. Most importantly, we are pleased to be a part of an international community of companies and organizations who are striving to meet similar sustainability goals.

MEC continues to operate our businesses driven by the belief in People, Planet and Profit – the 3Ps. In this Sustainability Report section of the Annual Report, we will focus on our progress in social (People) and environmental (Planet) responsibility.



The contribution breakdown to each area of focus:



PEOPLE:

MEC believes that conducting our activities in a socially responsible manner is integral to sound business management. To better guide our work with stakeholders in the long term, we have created corporate policies that align our beliefs to the way we operate. The Health and Safety policy was written to guide operations in protecting the health and safety of our workforce in the long term. The Social Responsibility policy was also written to guide business operations within local communities to reduce unnecessary impacts and risks to local people. For more information on our policies, please visit the Sustainability section of the MEC's corporate website. We will continue to refine our policies over time to meet specific areas of need as we grow.

MEC continues to emphasize local community development and partnerships in Mongolia as a key part of our involvement. We have contributed over HK\$1,000,000 to much needed infrastructure such as educational institutions and community education and culture centers, and we continue to support the projects that we have developed with the local community to make the area a better place to live and work.

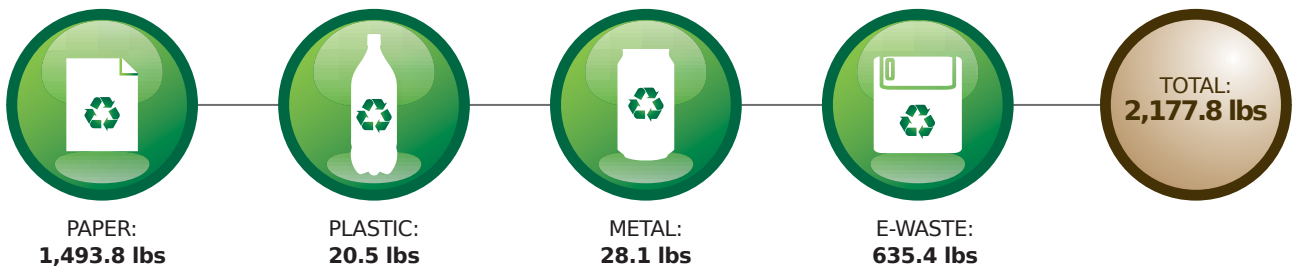


PLANET:

MEC believes that conducting our activities in an environmentally responsible manner is integral to sound business management, therefore we have created an Environmental policy that seeks to minimize the impact of mining operations on natural resources.

Green Office Guidelines for different aspects of the Hong Kong corporate offices have been written and distributed to the appropriate departments. Training for the Office Management and IT department has been implemented to help employees reduce waste of natural resources such as paper and energy.

MEC is proud to report that since the implementation of the Green Office Guidelines, our waste reduction records have shown a decrease in energy usage and increase in recycling. Our office recycling programs diverted an estimated 6% of our office waste from Hong Kong landfills for a number of material categories as documented in diagram below. We will continue to make improvements to our office programs and will work to expand our Green Office program from the Hong Kong headquarters to our offices in China and Mongolia in the near future.



The data above shows the amount in pounds of each material that MEC has diverted from the landfill since we commenced our recycling program in October 2010 to the end of the Financial Year.

In addition, since the implementation of our energy saving program last year, MEC has recorded a 4.86% reduction in total electricity used in the Financial Year.

MEC is in the process of laying the foundations for a long-term sustainability program that seeks to minimize risk for our shareholders and other stakeholders. As this is a wide reaching vision, we ask for your patience and understanding as we continue to check action items off our master sustainability improvements list. While our main focus at MEC continues to be on financial performance, we fully embrace the understanding that the lasting success of the Company also includes environmental and social responsibility.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of Directors (the “**Board**”) recognises 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 recognise 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 Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

For the year ended 31 March 2011, the Company has complied with the code provisions of the CG Code except the deviations as mentioned 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.

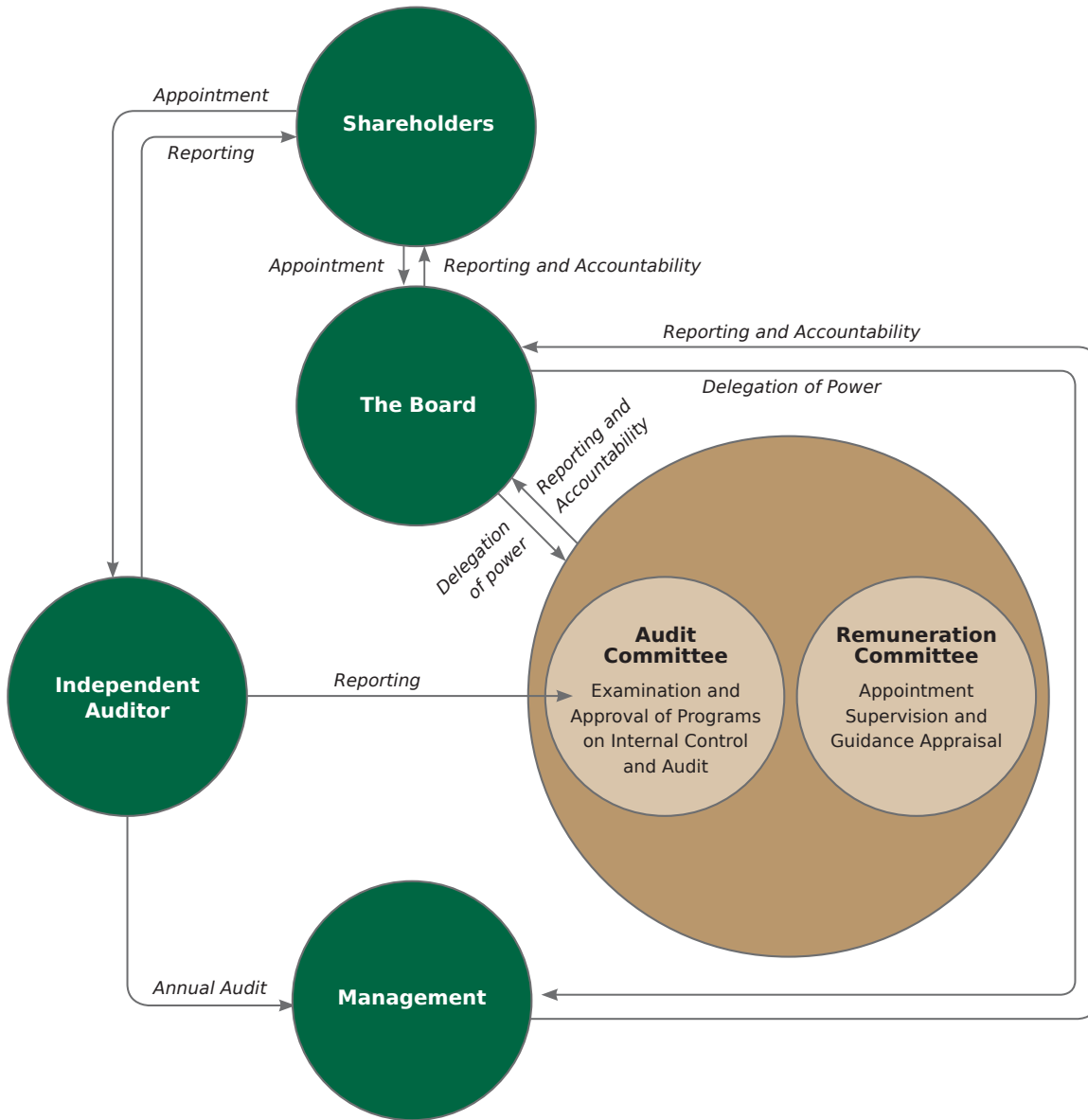
None of the existing Non-executive Directors is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the CG Code. However, they are subject to the retirement by rotation under the Bye-laws of the Company. As such, the Company considers that sufficient measures have 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 should attend the annual general meeting (the “**AGM**”).

The Chairman did not attend the 2010 AGM due to another business engagement. An Executive Director chaired the 2010 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 of the Company was also available to answer questions at the 2010 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”.

- iii. The Company, Mr. Lo Lin Shing, Simon and Ms. Yvette Ong were censured by the Listing Committee for breach of the Listing Rules in relation to clarity of certain announcements issued in 2007. Further details are set out in the press release of the Stock Exchange dated 28 October 2010.

CORPORATE GOVERNANCE STRUCTURE



COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

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 in Appendix 10 of the Listing Rules (the “**Model Code**”). The Code is sent to each Director on his/her initial appointment and from time to time when the same is amended or restated.

Corporate Governance Report

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

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

During the period of 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. Legal and Compliance Department 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 and including the publication of the half year results or, if shorter, the period from the end of the relevant quarterly or half year period up to and including the publication date of the results, all Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published. Legal and Compliance Department 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 the Employees’ Guidelines that all dealings of the Company’s securities must be conducted in accordance with the provisions stated therein. Under the Code, the Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company, and in the case of the Chairman himself, he must notify the designated Director and receive a dated written acknowledgement before any dealing.

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

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Promoting good corporate governance and managing enterprise-wide risk is a priority of the Company. The Company is convinced that corporate governance and Directors and Officers Liability Insurance (the “**D&O Insurance**”) complement each other. The Company has arranged the appropriate D&O Insurance coverage on the Directors’ and officers’ liabilities in respect of legal actions against Directors and senior management arising out from corporate activities. The D&O Insurance will be reviewed and renewed annually.

THE BOARD

a) Board Composition

The Board currently comprises three Executive Directors, one Non-executive Director and three Independent Non-executive Directors overseeing the operation of the Company. The biographical details of each Director are set out on pages 44 to 45. Our Board possesses a balance of skills and experience appropriate for the running of the Company's business. They come from different streams of professions with diversified expertise including management, finance, legal and accounting.

The Board members up to the date of the report were:

Executive Directors

Mr. Lo Lin Shing, Simon (*Chairman*)

Mr. Liu Zhuo Wei

Ms. Yvette Ong

Non-executive Director

Mr. To Hin Tsun, Gerald

Independent Non-executive Directors

Mr. Peter Pun *OBE, JP*

Mr. Tsui Hing Chuen, William *JP*

Mr. Lau Wai Piu

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

The Board will consider the following attributes or qualifications in evaluating membership in the Board:

- management and leadership experience;
- skills and diverse background;
- integrity and professionalism; and
- independency.

During the year ended 31 March 2011, the Board at all times met the requirements under Rule 3.10 of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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

b) Role and Function

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

The Board gives clear directions as to the powers delegated to the management for the administration and management functions of the Group. The Directors have separate and independent access to members of senior management to make enquiries or obtain necessary information. The representative of the Board will meet the management of the Company from time to time to discuss operating issues of the Group.

All Non-executive Directors of the Board are not involved in daily management. The Non-executive Directors are helping the Board in determining overall policies of the Company and contributing to the decision making of the Board. They also give independent views on the deliberations of the Board and ensure the financial probity on the part of the Company is maintained in high standard.

For the year ended 31 March 2011, the Board had:

- i. reviewed the performance of the Group and formulated business strategy of the Group;
- ii. reviewed and approved the annual and interim results of the Group;
- iii. reviewed the internal controls of the Group;
- iv. reviewed and approved the general mandates to issue shares of the Company;
- v. reviewed and approved the price-sensitive transactions;
- vi. reviewed and approved the notifiable transactions of the Company; and
- vii. reviewed and approved the auditor's remuneration and recommended the re-appointment of Deloitte Touche Tohmatsu as the independent auditor of the Group respectively.

To the best knowledge of the Company, there is no financial, business and family relationship among our Directors between the Chairman and the Chief Executive Officer. All of them are free to exercise their independent judgment.

c) Chairman and Chief Executive Officer

The Chairman and the Chief Executive Officer during the year ended 31 March 2011 were Mr. Lo Lin Shing, Simon and Mr. James J. Schaeffer, Jr. respectively.

The Chairman's responsibility is to provide leadership to the Board and formulate the Group's business strategies. The Chairman is also responsible for ensuring the Board works effectively, in particular, ensuring all Directors receive reliable, adequate and complete information in a timely manner.

The Chief Executive Officer is responsible for implementing the strategic business plans in relation to the energy and related resources business of the Group.

d) Accountability and Audit

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

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 59 to 60.

e) Internal Control and Risk Management

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

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. This process includes continuous updating of the internal control system of the Group in response to the changing business environment and regulatory requirements.

The Board also conducts review of the internal controls of the Group to ensure that the policies and procedures in place are adequate. The Board assesses the effectiveness of the Group's internal control system which covers all material controls, including financial, operational and compliance controls and risk management functions. During the year, an independent professional consulting firm was engaged to conduct the internal control review of the Group and reported directly to the audit committee of the Company (the "**Audit Committee**"). The outcomes of the review were submitted to the Audit Committee and no major weakness was identified. The independent professional consulting firm also provided recommendations based on its findings.

To facilitate and enhance better internal control, the Director of Legal and Compliance will assist in internal control and review process to ensure the compliance aspects of the Group are met. The Company Secretary will ensure the Board and the Board Committees are provided with timely information and sufficient resources to enable them to discharge their duties.

f) Meetings and Corporate Communication

The Group makes great efforts to enhance the communication with investors. Our Investor Relations Department is responsible for improving the relationship between the Company and our investors. From time to time, the website of the Company (www.mongolia-energy.com) contains updated information of the Group and press releases are posted on our website in a timely manner. Shareholders can also visit the Company’s website for updated information of the Group.

The Company has complied with the Listing Rules regarding the requirements about voting by poll and keeping shareholders informed of the procedures for voting by poll through notices of general meetings in circulars of the Company to shareholders from time to time.

During the year, the Company held two general meetings including the AGM. In the 2010 AGM, Directors and the independent auditor of the Company had attended to answer shareholders’ enquiries.

The Board conducts meetings on both regular and ad hoc bases from time to time in relation to the business of the Company. During the year, the Company held four regular Board meetings to consider the final results, interim results, financial and operating performance. The attendance of each Director is as follows:

	Attendance (Number of meetings)
<i>Executive Directors</i>	
Mr. Lo Lin Shing, Simon (<i>Chairman</i>)	2(4)
Mr. Liu Zhuo Wei	2(4)
Ms. Yvette Ong	4(4)
<i>Non-executive Director</i>	
Mr. To Hin Tsun, Gerald	4(4)
<i>Independent Non-executive Directors</i>	
Mr. Peter Pun <i>OBE, JP</i>	4(4)
Mr. Tsui Hing Chuen, William <i>JP</i>	4(4)
Mr. Lau Wai Piu	4(4)

BOARD COMMITTEES

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

- audit committee
- remuneration committee

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

The terms of references of the Audit Committee and the remuneration committee of the Company (the “**Remuneration Committee**”), respectively, are published on our website.

AUDIT COMMITTEE

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

a) Composition of Audit Committee members

Mr. Lau Wai Piu (*Chairman of Audit Committee*)

Mr. Peter Pun *OBE, JP*

Mr. Tsui Hing Chuen, *William JP*

b) Role and Function

The Audit Committee is mainly responsible for:

- i. reviewing the Group's financial and accounting policies and financial statements half yearly before submission to, and providing advice and comments thereon to the Board;
- ii. discussing with the independent auditor on the nature and scope of audit and reviewing audit issues raised by the independent auditor;
- iii. reviewing financial controls, internal controls and risk management systems of the Group and in particular, the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget;
- iv. carrying out annual review on the continuing connected transactions of the Group including those fallen outside Rule 14A.33 of the Listing Rules and their financial implication in their capacity as members of the independent board committee; and
- v. considering the appointment, resignation or dismissal of independent auditor and their audit fees.

c) Attendance

During the year, the Company held two Audit Committee meetings. The attendance rate of the Audit Committee meetings during the year was 100%. The attendance of each member is as follows:

Committee members	Attendance (Number of meetings)
Mr. Lau Wai Piu	2(2)
Mr. Peter Pun <i>OBE, JP</i>	2(2)
Mr. Tsui Hing Chuen, <i>William JP</i>	2(2)

During the year, the Chief Financial Officer attended each Audit Committee meeting to present the financial results of the Group to the Committee members. He also oversees the financial reporting procedures and ensures the financial reporting and other accounting-related issues are complied with the requirements of the Listing Rules.

REMUNERATION COMMITTEE

The Remuneration Committee currently consists of three Independent Non-executive Directors. The Company has also appointed an external consultant to review and compare the level of compensation paid to the Directors with those prevailing in the market and give recommendation and to review and study the remuneration level of the senior management of the Company and give recommendation.

a) Composition of Remuneration Committee members

Mr. Lau Wai Piu (*Chairman of Remuneration Committee*)

Mr. Peter Pun *OBE, JP*

Mr. Tsui Hing Chuen, *William JP*

b) Role and Function

The Remuneration Committee is mainly responsible for:

- i. reviewing and approving compensation payable to executive Directors and senior management of the Company in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
- ii. ensuring an remuneration offer is appropriate for the duties and in line with market practice;
- iii. making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and engaging independent consultant to conduct report on emolument review; and
- iv. ensuring that no Director or any of his associates is involved in deciding his own remuneration.

c) Attendance

During the year, the Company held one Remuneration Committee meeting. The attendance rate of the Remuneration Committee meeting during the year was 100%. The attendance of each member is as follows:

Committee members	Attendance (Number of meetings)
Mr. Lau Wai Piu	1(1)
Mr. Peter Pun <i>OBE, JP</i>	1(1)
Mr. Tsui Hing Chuen, <i>William JP</i>	1(1)

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu was reappointed as independent auditor of the Group at the 2010 AGM. It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the independent auditor's report.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 59 to 60.

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

	HK\$'000
Audit services	3,316
Non-audit services	731
	4,047

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

MEC'S WEBSITE

MEC's website (www.mongolia-energy.com) provides comprehensive and accessible news and information of the Company. MEC's website also provides an open communication to our shareholders and other stakeholders. The Company will also update the website information from time to time to inform shareholders and investing public of the latest development of the Company. The latest annual report, interim report, the Company news and many other information of the Company can be found on our website. That information available is essential for building market confidence.

Directors' Profiles



Lo Lin Shing, Simon



Liu Zhuo Wei



Yvette Ong

MR. LO LIN SHING, SIMON Chairman and Executive Director

Mr. Lo, aged 55, an entrepreneur, is the Chairman of the Company. He has been an Executive Director since August 1999. Mr. Lo possesses around 30 years of experience in the financial, securities and futures industries, including many trans-border transactions. He has been a member of Chicago Mercantile Exchange and International Monetary Market (Division of Chicago Mercantile) since 1986. Mr. Lo is also the chairman of Vision Values Holdings Limited, the deputy chairman and executive director of International Entertainment Corporation, both of which are listed on the Stock Exchange. Mr. Lo is also a standing committee member of the Tenth Chinese People's Political Consultative Conference Shanxi Committee. He identifies business opportunities for MEC, including the acquisition of the coal mine in Western Mongolia, and provides business and strategic direction for MEC.

MR. LIU ZHUO WEI Executive Director

Mr. Liu, aged 58, has been an Executive Director since April 2008. He holds a bachelor degree from Harbin University of Science and Technology (哈爾濱理工大學). Mr. Liu joined the People's Liberation Army in 1969. As from 1983, Mr. Liu was with the People's Liberation Army General Staff Department (中國人民解放軍總參謀部) and General Armaments Department (總裝備部) involving in the development of military equipment and construction program. Mr. Liu is also an expert in rocket propulsion design and construction. In 2005, Mr. Liu joined All-China Federation of Industry & Commerce (中華全國工商業聯合會) and was formerly its deputy secretary.

MS. YVETTE ONG Executive Director

Ms. Ong, aged 46, has been a Director since September 1999. Ms. Ong has over 20 years of managerial experience in the Asia-Pacific region. Ms. Ong was formerly the CEO/managing director of New World CyberBase Limited (the predecessor of MEC). Before that Ms. Ong was a managing director of AT&T EasyLink Services Asia Pacific Ltd. Ms. Ong holds an MBA degree in Management Information Systems and Marketing and a Bachelor degree in Finance and Management from the University of San Francisco.



To Hin Tsun, Gerald



Peter Pun



Tsui Hing Chuen, William



Lau Wai Piu

MR. TO HIN TSUN, GERALD
Non-executive Director

Mr. To, aged 62, was appointed as an Independent Non-executive Director in August 1999 and was re-designated as a Non-executive Director in October 2000. Mr. To has been a practising solicitor in Hong Kong since 1975. He is also qualified as a solicitor in the UK, as well as an advocate and solicitor in Singapore. Mr. To is also an executive director of International Entertainment Corporation, and a non-executive director of NWS Holdings Limited, all of which are listed on the Stock Exchange.

MR. PETER PUN *OBE, JP*
Independent Non-Executive Director

Mr. Pun, aged 80, has been an Independent Non-executive Director since October 1997. He is the chairman and chief executive of the PYPUN group, has over 45 years of international experience in engineering and construction, town and urban planning, and infrastructure and property development. He is a graduate of St. John's University and Tongji University in Shanghai and a postgraduate of Imperial College, London. He has been an Authorized Person and Registered Structural Engineer since 1964 and a Registered Geotechnical Engineer since 2005 under the Hong Kong Buildings Ordinance. He is a fellow of both the Institution of Civil Engineers in the United Kingdom and the Hong Kong Institution of Engineers.

MR. TSUI HING CHUEN, WILLIAM *JP*
Independent Non-executive Director

Mr. Tsui, aged 60, has been an Independent Non-executive Director since September 2006. Mr. Tsui is the founding partner of Messrs. Lo, Wong & Tsui, Solicitors & Notaries, which was established in 1980. He has been a solicitor of the High Court of Hong Kong since 1977, a solicitor of the Supreme Court of England & Wales since 1980, and a barrister and solicitor of the Supreme Court of Victoria, Australia since 1983. He has also been an advocate and solicitor in Singapore since 1985 and a notary public appointed by the Archbishop of Canterbury, England since 1988. Mr. Tsui was appointed as a Justice of the Peace by the Government of Hong Kong in 1997. He is also an independent non-executive director of International Entertainment Corporation, Haitong International Securities Group Limited (formerly known as Taifook Securities Group Limited) and Vision Values Holdings Limited, all of which are listed on the Stock Exchange.

MR. LAU WAI PIU
Independent Non-executive Director

Mr. Lau, aged 47, has been an Independent Non-executive Director since September 2004. He has over 20 years of extensive experience in accounting and financial management. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Lau is also an independent non-executive director of International Entertainment Corporation, Haitong International Securities Group Limited (formerly known as Taifook Securities Group Limited) and Vision Values Holdings Limited, all of which are listed on the Stock Exchange.

Senior Management's Profiles



MR. JAMES J. SCHAEFFER, Jr ① **Chief Executive Officer**

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

MR. TANG CHI KEI ③

Chief Financial Officer and Company Secretary

Mr. Tang has over 20 years' experience in corporate finance, treasury, accounting and company secretarial work. He has worked in senior finance roles for various Hong Kong listed companies. Mr. Tang holds a master degree of Finance and is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

MR. POON TUNG HOI, GORDON ②

Managing Director of Corporate Development and Investor Relations

Mr. Poon has over 20 years' experience in investment banking. He worked as senior management in corporate finance and capital markets trading and sales in London, North America, Tokyo and Hong Kong for leading house, including HSBC, CIBC, Bank of America and UBS, prior to taking on consultancy roles on private equities, direct investment and pre-IPO funding transactions globally for leading institutional clients with an emphasis on the Greater China region.

MR. HO CHEUK YIN ④

Director of Corporate Finance

Mr. Ho, a Certified Public Accountant (Practicing) in Hong Kong and a member of The Institute of Chartered Accountants in England and Wales, possesses more than 20 years' extensive experience in the financial industry of Hong Kong, including investment banking, financial management, accounting and auditing. Mr. Ho, a former executive director of a Hong Kong investment bank, completed hundreds of listed companies' corporate transactions including initial public offerings, mergers and acquisitions, takeovers projects and fund raising activities in the past 10 years.

MR. CHOI MAN YU, FRANKIE ⑤

Director of Legal & Compliance

Mr. Choi joined the Group in 2007. He is responsible for all legal, regulatory and compliance matters of the Group. Mr. Choi holds a Bachelor's degree in Law and has been a qualified solicitor in Hong Kong since 1994. Mr. Choi has extensive experience in legal and regulatory matters.

Directors' Report

The Directors present their report together with the audited financial statements of the Company and its subsidiaries (together the “**Group**”) for the Financial Year.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding and the activities of its principal subsidiaries are in the energy and related resources sector. The activities of the principal subsidiaries are set out in Note 37 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group for the Financial Year is set out in Note 7 to the financial statements.

RESULTS

The results of the Group for the Financial Year are set out in the Consolidated Income Statement on page 61.

No interim dividend was declared (2010: Nil) and the Directors do not recommend the payment of a final dividend for the Financial Year (2010: Nil).

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and the share options of the Company during the Financial Year are set out in Notes 30 and 31 to the financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results for the Financial Year and of the assets and liabilities of the Group as at 31 March 2011 and for the last four financial years are set out on page 123.

RESERVES

Movements in reserves of the Group and the Company during the Financial Year are set out on page 64 and in Note 35 to the financial statements respectively.

DONATIONS

For the Financial Year, the Group made donations for charitable and other donations for a total amount of HK\$1,992,000.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the Financial Year are set out in Note 14 to the financial statements.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the principal subsidiaries and associated companies of the Group as at 31 March 2011 are set out in Notes 37 and 19 to the financial statements respectively.

MAJOR SUPPLIERS AND CUSTOMERS

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

Purchases

The Group's only operating segment, coal mining business, was under trial production during the Financial Year, therefore there were no major purchases during the year.

Sales

The Group's only operating segment, coal mining business, was under trial production during the Financial Year, therefore there were no sales during the year.

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

DIRECTORS

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

Executive Directors

Mr. Lo Lin Shing, Simon (*Chairman*)

Mr. Liu Zhuo Wei

Ms. Yvette Ong

Non-executive Director

Mr. To Hin Tsun, Gerald

Independent Non-executive Directors

Mr. Peter Pun *OBE, JP*

Mr. Tsui Hing Chuen, William *JP*

Mr. Lau Wai Piu

In accordance with Bye-law 87 of the Bye-laws of the Company, Mr. Liu Zhou Wei, Ms. Yvette Ong and Mr. Peter Pun *OBE, JP* will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

The Directors, including the Independent Non-executive Directors, are subject to retirement by rotation and re-election at the AGM in accordance with the provisions of the Bye-laws of the Company.

Biographical details of the Directors and the senior management of the Group are set out on pages 44 to 47.

CORPORATE GOVERNANCE

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

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 34 to 43.

DIRECTORS' INTERESTS

As at 31 March 2011, the interests or short positions of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Long positions in the shares

Name of Directors	Capacity	Number of shares	Percentage of shareholding
Mr. Lo Lin Shing, Simon ("Mr. Lo")	Interest of a controlled corporation/Beneficial/Interest of spouse ^(Note)	1,202,788,301	18.206%
Ms. Yvette Ong	Beneficial	1,090,000	0.016%
Mr. To Hin Tsun, Gerald	Beneficial	5,400,000	0.082%
Mr. Tsui Hing Chuen, William	Beneficial	500,000	0.008%
Mr. Lau Wai Piu	Beneficial	201,200	0.003%

Note: Among the 1,202,788,301 shares, 4,960,000 shares represent interest of Mr. Lo on an individual basis; while 1,196,078,301 shares represent interest of Golden Infinity Co., Ltd ("Golden Infinity"). The balancing of 1,750,000 shares represents interest of Ms. Ku Ming Mei, Rouisa ("Mrs. Lo"). Accordingly, Mr. Lo is deemed to be interested in the shares in which Golden Infinity and Mrs. Lo are interested by virtue of the SFO.

(b) Long positions in the underlying shares

Name of Directors	Capacity	Number of shares	Percentage of shareholding
Mr. Lo	Interest of a controlled corporation/Personal	81,000,000 ^(Note)	1.226%
Ms. Yvette Ong	Personal	500,000	0.008%
Mr. To Hin Tsun, Gerald	Personal	500,000	0.008%
Mr. Peter Pun	Personal	500,000	0.008%
Mr. Tsui Hing Chuen, William	Personal	500,000	0.008%
Mr. Lau Wai Piu	Personal	500,000	0.008%

Note: Among the 81,000,000 shares, 75,000,000 shares represent interest of Golden Infinity. The balancing of 6,000,000 shares represents interest of Mr. Lo on an individual basis.

Directors' Report

Save as disclosed above and the section headed "Share Option Schemes", as at 31 March 2011, none of the Directors, chief executives and their respective associates had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS UNDER THE SFO

The register of interests in shares and short positions maintained under section 336 of the SFO showed that as at 31 March 2011, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

LONG POSITION OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS IN THE SHARES AND/OR UNDERLYING SHARES

Name of Shareholders	Capacity in which such interest is held	Number and description of shares	Percentage of nominal value of issued share capital
Mr. Liu Cheng Lin ("Mr. Liu")	Interest of a controlled corporation/Beneficial	628,757,500 <i>(Note 1)</i>	9.517%
Puraway Holdings Limited ("Puraway")	Corporation	528,757,500 <i>(Note 1)</i>	8.004%
Mrs. Lo	Beneficial/Interest of spouse	1,283,788,301 <i>(Note 2)</i>	19.432%
Golden Infinity	Corporate	1,196,078,301	18.104%
Dr. Cheng Kar Shun	Interest of a controlled corporation/Interest of spouse	394,670,000 <i>(Note 3)</i>	5.974%
Ms. Ip Mei Hing	Interest of a controlled corporation/Interest of spouse	394,670,000 <i>(Note 3)</i>	5.974%
Dragon Noble Group Limited ("Dragon")	Corporate	315,570,000	4.777%
Dato' Dr. Cheng Yu Tung	Beneficial/Interest of a controlled corporation	498,972,602 <i>(Note 4)</i>	7.553%
CTF	Corporate	493,972,602 <i>(Note 4)</i>	7.477%

Notes:

1. *Mr. Liu is interested in the entire issued share capital of Puraway. By virtue of the SFO, he is deemed to be interested in the 528,757,500 shares held by Puraway.*
2. *Mrs. Lo is the spouse of Mr. Lo and accordingly, she is deemed to be interested in 1,283,788,301 shares under the SFO.*
3. *Dr. Cheng Kar Shun is interested in the entire issued share capital of Dragon. By virtue of the SFO, he is deemed to be interested in the 315,570,000 shares held by Dragon and the 79,100,000 shares are owned by Ms. Ip Mei Hing, the spouse of Dr. Cheng Kar Shun.*
4. *Dato' Dr. Cheng Yu Tung is in control of CTF. By virtue of the SFO, he is deemed to be interested in the 493,972,602 shares held by CTF. The 493,972,602 shares held by CTF represent 220,000,000 shares and 273,972,602 underlying shares.*

Save as disclosed above and those disclosed under "Directors' Interests", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 31 March 2011.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Apart from those disclosed in the section headed "Connected Transactions", no contracts of significance to which the Company, its ultimate holding company or any subsidiaries of its ultimate holding company was a part in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

SHARE OPTION SCHEME

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

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

1 Purpose

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

2 Participants

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

3 Number of shares available for issue

Under the Option Scheme, the total number of shares which might be issued under options to be granted was 239,211,236 which represent approximately 3.62% of the issued share capital of the Company as at 31 March 2011.

4 Maximum entitlement of each participant

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

5 Option period

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

6 Vesting period

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

7 Amount payable on acceptance of option

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

8 Exercise price

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

9 Remaining life of the scheme

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

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

(A) Directors

Name	Date of grant	Exercise price HK\$	Exercise period	Vesting period	Number of shares subject to options				As at 31 March 2011
					As at 1 April 2010	Granted during the year	Lapsed during the year	Exercised during the year	
Mr. Lo	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	-	6,000,000 <i>(Note 1)</i>	-	-	6,000,000
Ms. Yvette Ong	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	-	500,000 <i>(Note 1)</i>	-	-	500,000
Mr. To Hin Tsun, Gerald	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	-	500,000 <i>(Note 1)</i>	-	-	500,000
Mr. Peter Pun	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	-	500,000 <i>(Note 1)</i>	-	-	500,000
Mr. Tsui Hing Chuen, William	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	-	500,000 <i>(Note 1)</i>	-	-	500,000
Mr. Lau Wai Piu	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	-	500,000 <i>(Note 1)</i>	-	-	500,000
Sub-total					-	8,500,000	-	-	8,500,000

(B) Employees in aggregate

Name or category of participants	Date of grant	Exercise price HK\$	Exercise period	Vesting period	Number of shares subject to options				As at 31 March 2011
					As at 1 April 2010	Granted during the year	Lapsed during the year	Exercised during the year	
Employees in aggregate (including a director of certain subsidiaries)	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	670	-	-	-	670
	18-08-2008	6.1420	18-08-2008 to 17-08-2010	N/A	250,000	-	250,000	-	-
	02-02-2009	2.1340	02-02-2009 to 01-02-2012	N/A	2,900,000	-	-	650,000 <i>(Note 2)</i>	2,250,000
	06-02-2009	2.2200	06-02-2009 to 05-02-2011	N/A	3,000,000	-	-	3,000,000 <i>(Note 3)</i>	-
	01-04-2009	2.3580	01-04-2009 to 31-03-2011	N/A	500,000	-	-	-	500,000
	13-08-2009	2.8900	13-08-2009 to 12-08-2011	N/A	2,000,000	-	-	-	2,000,000
	13-11-2009	4.1700	13-11-2009 to 12-11-2011	N/A	2,000,000	-	-	-	2,000,000
	09-04-2010	4.1100	09-04-2010 to 08-04-2015	N/A	-	3,300,000 <i>(Note 1)</i>	-	-	3,300,000
					10,650,670	11,800,000	250,000	3,650,000	18,550,670

Directors' Report

Notes:

1. On 9 April 2010, 11,800,000 share options were granted to the Directors and employees of the Company under the Option Scheme. The average closing price of the Company's shares for the five business days immediately before the date of grant was HK\$3.846. The closing price of the Company's shares on 8 April 2010 (the trading day immediately before the grant of the share options) was HK\$4.02.
2. The weighted average closing price of the Company's shares immediately before the dates on which share options were exercised during the period was HK\$3.25.
3. The closing price of the Company's shares immediately before the date on which share options were exercised was HK\$2.71.

CONNECTED TRANSACTIONS

(a) Connected transactions

Pursuant to Chapter 14A of the Listing Rules, the following connected transactions require disclosure in the annual report of the Company.

(i) Subscription agreement with Golden Infinity

On 27 April 2010 we entered into a subscription agreement with Golden Infinity for the subscription of a 3.5% coupon convertible note with an aggregate principal amount of HK\$300 million ("**GI Convertible Note**") by Golden Infinity. The subscriber is a company wholly and beneficially owned by Mr. Lo (Chairman, an Executive Director and a substantial shareholder of the Company). The subscription was completed on 6 September 2010. The GI Convertible Note has a maturity period of three years and can be converted into 1 ordinary share of the Company for every HK\$4 at the holder's option at any time between the issue date and the maturity date.

(ii) Disposal of Business Aviation Asia Group Limited

In August 2010, we disposed Business Aviation Asia Group Limited ("**Business Aviation**"), a wholly owned subsidiary of the Company at a consideration of HK\$38,239,645. The purchaser is an investment holding company incorporated in Panama and is wholly and beneficially owned by Mr. Lo. The principal asset of Business Aviation was its 43% equity interest in a company in the PRC engaging in the business of aircraft charter, aircraft management, aircraft maintenance and related business. The disposal was completed in September 2010.

(b) Continuing connected transaction

Financial Assistance provided by Mr. Lo

Mr. Lo has provided a standby revolving facility of up to HK\$350 million (the "**Facility**") to the Company for its general working capital. The provision of the Facility constituted an exempt connected transaction under Rule 14A.65 of the Listing Rules.

As at 31 March 2011, a total of approximately HK\$42 million was drawn by the Company.

Agreed upon procedures performed by the independent auditor of the Company

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the independent auditor of the Company to perform certain agreed upon procedures in respect of the above continuing connected transaction of the Group and the auditor reported the actual findings on these procedures to the Board. The procedures were performed solely to assist the Directors to evaluate whether the continuing connected transaction entered into by the Group for the year ended 31 March 2011:

- (i) have received the approval of the Board; and
- (ii) have been entered in accordance with the terms of the agreement governing the transactions.

Confirmation of Independent Non-executive Directors

Pursuant to Rule 14A.37 of the Listing Rules, the Company's Independent Non-executive Directors have reviewed the above connected transactions and the review report of the auditor and have confirmed that the transactions have been entered into by the Group:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) in accordance with the terms of the respective agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

A copy of the auditor's letter had been submitted by the Company to the Stock Exchange.

GROUP'S BORROWINGS

Details of the Group's borrowings are set out in Notes 27, 28 and 36(c) to the financial statements.

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

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

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

The Audit Committee currently comprises Mr. Lau Wai Piu, Mr. Peter Pun and Mr. Tsui Hing Chuen, William who are the Independent Non-executive Directors. Their principal duties include reviewing and supervising the Company's financial reporting process, internal control procedures and relationship with the Company's independent auditor.

The audited financial statements for the year ended 31 March 2011 have been reviewed by the Audit Committee.

HUMAN RESOURCES

As at 31 March 2011, the Group employed total of 248 employees (as at 31 March 2010: 284) in Mainland China, Hong Kong 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.

SUFFICIENCY OF PUBLIC FLOAT

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

INDEPENDENT AUDITOR

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

On behalf of the Board

Lo Lin Shing, Simon
Chairman

Hong Kong, 28 June 2011

Independent Auditor's Report



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

We have audited the consolidated financial statements of Mongolia Energy Corporation Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 61 to 122, which comprise the consolidated statement of financial position as at 31 March 2011, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2011, 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.

EMPHASIS OF MATTERS

Without qualifying our opinion, we draw attention to Note 14 and 18(a) to the consolidated financial statements. The Group owns a number of mining concessions included in mineral properties of approximately HK\$12,914 million in Western Mongolia for coal mining, four of which may be revoked as a result of the enactment of the Mining Prohibition Law (the "MPL") on 16 July 2009 as well as an exploration concession of approximately HK\$286 million in Western Mongolia for iron ore. 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 four mining concessions and/or exploration concession is revoked due to the MPL and the compensation received by the Group is significantly less than the carrying amounts of these concessions, the Group would incur a significant impairment loss on the related mineral properties and/or 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.

In addition, we draw attention to Note 1 to the consolidated financial statements which indicates that as at 31 March 2011 the Group's current liabilities exceeded its current assets by approximately HK\$2,020,168,000 and that there are uncertainties about the commencement of the commercial production of the Khushuut Coking Coal Mine and the related capital commitments of the Group outlined in Note 34(b) to the consolidated financial statements. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from the major shareholder of the Company. If the finance is not available, the Group would be unable to meet its obligations as and when they fall due. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

28 June 2011

Consolidated Income Statement

For the year ended 31 March 2011

	Notes	2011 HK\$'000	2010 HK\$'000
Continuing operation			
Revenue – coal mining	7	-	-
Interest income		2,655	2,274
Staff costs	9	(96,995)	(63,235)
Depreciation		(27,877)	(24,177)
Other expenses		(109,452)	(96,936)
Finance costs	8	(149,450)	(91,556)
Fair value gain (loss) on investment property	15	7,231	(10,689)
Fair value (loss) gain on held-for-trading investments		(7,581)	72,814
Fair value gain on derivative component	27	71,803	-
Impairment losses on interests in and loans to associates	19	(1,596)	(2,457)
Impairment loss on available-for-sale financial asset	20	(4,785)	(3,024)
Share of losses of associates	19	(3,090)	(31,535)
Gain on early redemption of a loan note receivable	21	8,387	-
Loss before taxation	9	(310,750)	(248,521)
Income tax expense	10	-	-
Loss for the year from continuing operation		(310,750)	(248,521)
Discontinued operation			
Loss for the year from discontinued operation	11	-	(68,884)
Loss for the year		(310,750)	(317,405)
Loss for the year attributable to owners of the Company		(310,750)	(317,405)
Loss per share	13		
From continuing and discontinued operations			
- basic (HK cents)		(5.02)	(5.22)
- diluted (HK cents)		(5.02)	(5.22)
From continuing operation			
- basic (HK cents)		(5.02)	(4.08)
- diluted (HK cents)		(5.02)	(4.08)
From discontinued operation			
- basic (HK cents)		N/A	(1.14)
- diluted (HK cents)		N/A	(1.14)

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	2011 HK\$'000	2010 HK\$'000
Loss for the year	(310,750)	(317,405)
Other comprehensive income		
Exchange difference arising on translation	49,146	31,025
Total comprehensive expense for the year	(261,604)	(286,380)

Consolidated Statement of Financial Position

As at 31 March 2011

	Notes	2011 HK\$'000	2010 HK\$'000
Non-current assets			
Property, plant and equipment	14	13,250,527	94,314
Investment property	15	105,264	94,278
Intangible assets	16	1,113	877
Development in progress	17	1,731,667	1,090,494
Exploration and evaluation assets	18	385,912	13,189,727
Interests in associates	19	–	41,599
Available-for-sale financial asset	20	3,914	–
Other asset		1,150	1,150
Loan note receivable	21	–	37,667
Prepayments for exploration and evaluation expenditure	22	22,016	22,042
Deposits for property, plant and equipment and other long-term deposits	23	94,661	63,556
Amount due from an associate	19	200,000	200,000
		15,796,224	14,835,704
Current assets			
Other receivables, prepayments and deposits		53,133	164,094
Held-for-trading investments	24	37,626	45,207
Amounts due from associates	19	10,107	3,654
Cash and cash equivalents	25	10,175	121,299
		111,041	334,254
Current liabilities			
Accounts payable	26	37,107	8,110
Other payables and accruals		55,402	49,244
Convertible notes	27	1,996,516	140,232
Loan note	28	–	112,969
Advances from a Director	36(c)	42,184	–
Amount due to an associate	19	–	624
		2,131,209	311,179
Net current (liabilities) assets		(2,020,168)	23,075
Total assets less current liabilities		13,776,056	14,858,779
Non-current liabilities			
Convertible notes	27	701,897	1,709,801
Net assets		13,074,159	13,148,978
Financed by:			
Capital and reserves			
Share capital	30	132,131	122,058
Reserves		12,941,971	13,026,863
Equity attributable to owners of the Company		13,074,102	13,148,921
Non-controlling interests		57	57
Total equity		13,074,159	13,148,978

The consolidated financial statements on pages 61 to 122 were approved and authorized for issue by the Board of Directors on 28 June 2011 and are signed on its behalf by:

Lo Lin Shing, Simon
DIRECTOR

Yvette Ong
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

	Attributable to owners of the Company							Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Share options reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000			
Balance at 1 April 2009	120,964	9,138,392	199,594	4,184,166	13,181	(64,387)	(332,674)	13,259,236	57	13,259,293
Comprehensive expense										
Loss for the year	-	-	-	-	-	-	(317,405)	(317,405)	-	(317,405)
Other comprehensive income										
Exchange differences arising on translation	-	-	-	-	-	31,025	-	31,025	-	31,025
Total comprehensive income (expense) for the year	-	-	-	-	-	31,025	(317,405)	(286,380)	-	(286,380)
Equity-settled share-based payments	-	-	-	-	6,660	-	-	6,660	-	6,660
Issue of shares										
- Acquisition of an exploration right	1,092	168,100	-	-	-	-	-	169,192	-	169,192
- Exercise of share options	2	311	-	-	(100)	-	-	213	-	213
Balance at 31 March 2010 and 1 April 2010	122,058	9,306,803	199,594	4,184,166	19,741	(33,362)	(650,079)	13,148,921	57	13,148,978
Comprehensive expense										
Loss for the year	-	-	-	-	-	-	(310,750)	(310,750)	-	(310,750)
Other comprehensive income										
Exchange differences arising on translation	-	-	-	-	-	49,146	-	49,146	-	49,146
Total comprehensive income (expense) for the year	-	-	-	-	-	49,146	(310,750)	(261,604)	-	(261,604)
Equity-settled share-based payments	-	-	-	-	23,414	-	-	23,414	-	23,414
Issue of shares										
- Exercise of share options	73	11,661	-	-	(3,687)	-	-	8,047	-	8,047
- Conversion of convertible note	10,000	3,674,542	-	(3,529,218)	-	-	-	155,324	-	155,324
Balance at 31 March 2011	132,131	12,993,006	199,594	654,948	39,468	15,784	(960,829)	13,074,102	57	13,074,159

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	Notes	2011 HK\$'000	2010 HK\$'000
Operating activities			
Loss before taxation from continuing and discontinued operations		(310,750)	(317,405)
Interest income		(2,655)	(2,274)
Finance costs		149,450	91,556
Write off of property, plant and equipment		4	-
Write off of intangible assets		-	23
Write off of prepayments for exploration and evaluation expenditure		-	3,174
Loss on disposal of property, plant and equipment		15	39
Loss on disposal of subsidiaries	32	-	4,800
Share of losses of associates		3,090	31,535
Amortisation of intangible assets		640	423
Amortisation of the transaction costs on issuance of convertible notes		3,001	-
Depreciation		27,877	32,034
Exploration related expense previously recognised as long term deposit and prepayment		-	1,720
Fair value (gain) loss on investment property		(7,231)	10,689
Fair value loss (gain) from held-for-trading investments		7,581	(72,814)
Fair value gain on derivative component		(71,803)	-
Impairment loss on aircraft		-	24,333
Impairment losses on interests in and loans to associates		1,596	2,457
Impairment loss on deposit paid for acquisition of aircraft		-	23,649
Impairment loss on available-for-sale financial asset		4,785	3,024
Impairment loss on deposit and loan and receivable		1,566	-
Gain on early redemption of a loan note receivable		(8,387)	-
Equity-settled share-based payments		23,414	6,660
Operating cash flows before movements in working capital		(177,807)	(156,377)
Increase in other receivables, prepayments and deposits		(21,264)	(53,598)
Decrease in held-for-trading investments		-	56,349
Increase (decrease) in other payables and accruals		6,158	(1,193)
Repayment of advance from an associate		(624)	(2,007)
Net cash used in operations		(193,537)	(156,826)
Tax paid – Hong Kong profits tax		-	(5,301)
Net cash used in operating activities		(193,537)	(162,127)
Investing activities			
Purchase of property, plant and equipment		(235,917)	(16,023)
Proceeds received from disposal of property, plant and equipment		8	448
Proceeds received from early redemption of loan note receivable and interest received		46,287	-
Refund of deposit paid for aircraft		124,610	-
Development in progress additions		(455,998)	(237,741)
Net cash outflow from acquisition of an exploration right through acquisition of subsidiaries		-	(77,485)
Exploration and evaluation asset additions		(74,833)	(92,637)
Intangible asset additions		(876)	(514)
Deposits for property, plant and equipment		(1,529)	(1,320)
Security deposit paid for contract mining and equipment purchase		(31,200)	-
Capital contribution to associates		(1,026)	(6,293)
Advances to associate		(4,643)	-
Available-for-sale financial asset addition	20	(8,699)	(3,024)
Disposal of subsidiaries	32	36,129	48,694
Advances to investment company		(1,157)	-
Bank interest received		2,422	1,997
Net cash used in investing activities		(606,422)	(383,898)

Consolidated Statement of Cash Flows

	2011	2010
	HK\$'000	HK\$'000
Financing activities		
Proceeds received from issue of convertible notes	766,800	–
Proceeds received from exercise of share options	8,047	213
Short term advances from a Director	258,000	–
Repayment of short term advances from a Director	(216,000)	–
Repayment of a loan note	(100,000)	–
Interest paid	(16,493)	–
Transaction cost on issuance of convertible notes	(18,005)	–
Net cash generated from financing activities	682,349	213
Net decrease in cash and cash equivalents	(117,610)	(545,812)
Cash and cash equivalents at beginning of the year	121,299	660,889
Effect of foreign exchange rate changes	6,486	6,222
Cash and cash equivalents at end of the year	10,175	121,299

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

1. GENERAL

The Company is a public limited liability company incorporated in Bermuda. The address of the principal place of business of the Company is 40th and 41st Floors, New World Tower 1, 16-18 Queen's Road Central, Hong Kong. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company and its subsidiaries (together with the Company collectively referred to as the "**Group**") are principally engaged in energy and related resources business. During the year ended 31 March 2010, the Group discontinued the provision of charter flight services and aircraft leasing business as set out in Note 11.

The consolidated financial statements are presented in Hong Kong dollars. The functional currency of the Company was Hong Kong dollars until 1 March 2010, when the Company discontinued the provision of charter flight services and aircraft leasing business. After that date, the functional currency of the Company became the United States dollar ("**US\$**") as the US\$ better reflects the underlying transactions, event and conditions that are relevant to the Group's ongoing business. For the convenience of the financial statements users, the consolidated financial statements are presented in Hong Kong dollars, as the Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

In preparing the consolidated financial statements, the Directors have given consideration to the future liquidity of the Group. While recognising that the Group had net current liabilities of approximately HK\$2,020,168,000 at 31 March 2011, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future as the Group has agreed with Chow Tai Fook Nominee Limited, being the holder of the zero coupon convertible note (principal amount of HK\$2 billion) to redeem the note by reissuance of a 3-year 3% coupon convertible note in the principal amount of HK\$2 billion (the "**3% CTF Convertible Note**"). The completion on subscription of the 3% CTF Convertible Note is subject to satisfaction of certain conditions and it was completed before the date of approval of the financial statements by the Directors. In addition, Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), the major shareholder and chairman of the Company, has also provided further facilities to meet the Group's funding needs. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Currently, the Group's principal project, the Khushuut Coking Coal Mine, is still under trial production stage and did not contribute any revenue to the Group for the year ended 31 March 2011. The Group is using its best endeavours in an attempt to bring the project into commercial production as soon as possible and it will then further improve the liquidity position of the Group. However, the commencement of the project is still subject to satisfaction of certain conditions, which represents an uncertainty to the going concern of the Group.

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

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (As revised in 2008)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Classification of Rights Issues
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (As revised in 2008)	Business Combinations
HK-Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

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.

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)	Improvements to HKFRSs 2010 ¹
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁵
HKAS 24 (As revised in 2009)	Related Party Disclosures ³
HKAS 27 (As revised in 2011)	Separate Financial Statements ⁶
HKAS 28 (As revised in 2011)	Investments in Associates and Joint Ventures ⁶
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ⁴
HKFRS 9	Financial Instruments ⁶
HKFRS 10	Consolidated Financial Statements ⁶
HKFRS 11	Joint Arrangements ⁶
HKFRS 12	Disclosures of Interests in Other Entities ⁶
HKFRS 13	Fair Value Measurement ⁶
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ³
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 July 2011

⁵ Effective for annual periods beginning on or after 1 January 2012

⁶ Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 “Financial Instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. HKFRS 9 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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 9 was revised in November 2010 by adding the requirements for the classification and measurement of financial liabilities. One major change relates to the presentation of a gain or loss on a financial liability designated at fair value to the consolidated income statement. The revised HKFRS 9 requires the change in fair value that is attributable to changes in the credit risk of that financial liability to be presented in other comprehensive income, unless such presentation would create or enlarge an accounting mismatch.

The Directors anticipate that HKFRS 9 will be adopted in the Group’s consolidated financial statements for financial year ending 31 March 2014. Based on the Group’s financial assets and financial liabilities as at 31 March 2011, the application of the new HKFRS 9 will affect the classification and measurement of the Group’s available-for-sale investment and may affect the classification and measurement of the Group’s other financial assets but not on the Group’s financial liabilities.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group’s equity therein.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 April 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Interests in associates

An associate is an entity over which the investor has significant influence which is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

Where a group entity transacts with an associate of the Group, profits and losses resulting from the transaction with the associate are recognised in the Group's consolidated financial statements only to the extent of the Group's interest in the relevant associate that are not related to the Group.

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

From 1 April 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to the consolidated income statement on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to the consolidated income statement (as a reclassification adjustment) when it loses significant influence over that associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts.

Charter flight income

Charter flight income is recognised when transportation services are rendered.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Mining structures

Mining structures include deferred stripping costs and mining related property, plant and equipment. When technical feasibility and commercial viability has been demonstrated, but before commercial production, stripping costs incurred to develop coal mines are capitalised as part of the cost of the mining structures. Mining structures are included in property, plant and equipment and are depreciated on the unit-of-production basis, using estimated resources as the depletion base or useful life basis, using the cost of items of property, plant and equipment less residual values over their estimated useful lives, whichever is appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Mineral properties

Mining properties incorporate both the mining rights (intangible) and the underlying mineral reserve (tangible) elements. Mining properties are classified as property, plant and equipment to the extent the tangible reserve is the more significant element. Mineral properties comprise of cost of acquisition of mining rights and capitalised exploration costs which are capitalised initially under exploration and evaluation assets and transferred to property, plant and equipment as mineral properties when the technical feasibility and commercial viability of extracting mineral resources become demonstrable. On the commencement of commercial production, depreciation of mineral properties will be provided on the unit-of-production basis, using estimated resources as the depletion basis.

Intangible assets acquired separately

Software acquired separately and with finite useful lives is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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

Prepayments for exploration and evaluation expenditure

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

Development in progress

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

Exploration and evaluation assets

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of exploration and evaluation assets

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

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

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

Investment properties

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

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

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease.

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

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group not denominated in the US\$ functional currency are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to the consolidated income statement. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in the consolidated income statement. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

The functional currency of a group entity is changed only if there is a change to the underlying transactions, events and conditions relevant to the entity. The effect of a change in the translation functional currency is accounted for prospectively. At the date of change, the entity translates all items into the new functional currency using the prevailing exchange rate at that date and the resulting translated amounts for non-monetary items are treated as the historical cost.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Retirement benefits costs

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is recognised in the consolidated income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Financial instruments

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

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

Financial assets

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

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

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

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

Loans and receivables

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

Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

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

For financial assets carried at amortised cost, an impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Effective interest method

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

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

Convertible notes

Convertible notes contain liability and equity components

Convertible notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the convertible notes into equity, is included in equity.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in capital reserve until the embedded option is exercised. Where the option remains unexercised at the expiry date, the balance stated in capital reserve will be released to the retained profits. No gain or loss is recognised in the consolidated income statement upon conversion or expiration of the option.

Transaction costs that related to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Convertible notes contain liability and derivative component

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible notes (Continued)

Convertible notes contain liability and derivative component *(Continued)*

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in the consolidated income statement.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to the consolidated income statement immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Other financial liabilities

Other financial liabilities including accounts payable, other payables, advances from a Director, amount due to an associate and loan note are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in the consolidated income statement.

Embedded derivatives

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in the consolidated income statement.

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

Equity-settled share-based payment transactions

The fair value of services received is determined by reference to the fair value of share options granted at the grant date. For share options which are vested at the date of grant, the fair value of the shares options granted is expensed immediately to the consolidated income statement with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to the share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Equity instruments granted for acquisitions of goods or services

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

Other than the uncertainty relating to certain assets subject to MPL (as defined in Note 14) as discussed in details in Note 14 and Note 18(a), the following are other key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Fair value of derivative financial instrument

As describe in Note 27, the Directors of the Company use their judgement in selecting an appropriate valuation technique for financial instrument not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative component of the convertible notes, Binomial Valuation Model is used for valuation of the component which involves several key assumptions and estimates including share price volatility, dividend yield and risk free rate. The Directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

Estimated impairment of amounts due from associates

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2011, the carrying amount of amounts due from associates is HK\$210,107,000 (2010: HK\$203,654,000) (net of impairment loss on loans to associates of HK\$5,036,000 (2010: HK\$2,587,000)).

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which include advances from a Director, loan note disclosed in Note 28, convertible notes disclosed in Note 27, cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2011 HK\$'000	2010 HK\$'000
Financial assets		
Loans and receivables (including bank balances and cash)	266,870	502,740
Available-for-sale financial asset	3,914	–
Held-for-trading investments	37,626	45,207
Financial liabilities		
Measured at amortised cost	2,725,793	2,019,671
Embedded derivative component of convertible notes	106,178	–

6b. Financial risk management objectives and policies

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

Market risk

(i) Currency risk

The Group mainly operates in Hong Kong, Mainland China and Mongolia and the exposure in exchange rate risk mainly arises from loan note receivable, other receivables, held-for-trading investments, available-for-sale financial asset, amount due from an associate, cash and cash equivalents, accounts payable, other payables, convertible notes and advances from a Director denominated in currencies other than functional currency of the group entities.

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

	Liabilities		Assets	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Hong Kong Dollars ("HK\$")	2,746,992	1,967,298	245,806	296,722
United States Dollars	–	–	39	–
Renminbi ("RMB")	602	6,156	3,950	77
Mongolian Tugrik ("MNT")	39,213	2,543	3,477	1,546

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

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk *(Continued)*

Sensitivity analysis

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

The management considers the currency risk on RMB and MNT is insignificant and therefore no sensitivity analysis on such risk has been prepared.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan note receivable (see Note 21) and fixed-rate borrowings, such as convertible notes and a loan note (see Notes 27 and 28 for details of these borrowings). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 25) and advances from a Director.

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

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

Sensitivity analysis

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

(iii) Other price risk

(a) Price risk on equity securities

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

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

Sensitivity analysis

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

If the listed share prices of the respective equity instruments had been 5% higher/lower, the loss for the year ended 31 March 2011 would decrease/increase by HK\$1,881,000 (2010: loss would decrease/increase by HK\$2,260,000) as a result of the changes in fair value of held-for-trading investments.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(iii) Other price risk (Continued)

- (b) Price risk on embedded derivatives components of the convertible notes (defined under Note 27). For the year ended 31 March 2011, the Company is required to estimate the fair value of the derivative component of the convertible notes, including conversion options, with changes in fair value to be recognised in the consolidated income statement as long as the convertible notes is outstanding. The fair value will be affected either positively or negatively, amongst others, by the changes in the Company's share price and share price volatility.

Sensitivity analysis

If the listed share prices of the Company had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the year would increase by approximately HK\$2,024,000/decrease by approximately HK\$1,623,000, as a result of changes in fair value of the derivative component of the convertible notes.

If the volatility of listed share prices of the Company had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the year would increase by approximately HK\$1,364,000/decrease by approximately HK\$1,103,000, as a result of changes in fair value of the derivative component of the convertible notes.

If the discount rate of the Company had been 50 basic points higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the year would increase by approximately HK\$4,321,000/decrease by approximately HK\$4,390,000, as a result of changes in fair value of the derivative component of the convertible notes.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 March 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The Group is exposed to concentration of credit risk on amounts due from associates. At 31 March 2011, the amounts due from associates represent advances granted to two associates. The failure of these associates to make the required payment could have a substantial negative impact on the Group's results and liquidity. In order to minimise the credit risk, management of the Group has established procedures to monitor the business operation and financial position of the associates. In addition, the Group reviews the balance with these associates at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants. The net current liability is HK\$23,652,000 (excluded the liability from convertible notes).

As at 31 March 2011, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future as the Group has agreed with Chow Tai Fook Nominee Limited, being the holder of the zero coupon convertible note to redeem the note by reissuance of the 3% CTF Convertible Note.

Further facility has been provided by Mr. Lo to meet the Group's funding needs.

6. FINANCIAL INSTRUMENTS (Continued)**6b. Financial risk management objectives and policies** (Continued)**Liquidity risk** (Continued)

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

2011

	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 March 2011 HK\$'000
Accounts payable	37,107	-	-	-	37,107	37,107
Other payables	50,100	3,965	202	-	54,267	54,267
Advances from a Director	-	-	42,184	-	42,184	42,184
Convertible notes (Note 27)	-	-	26,838	820,476	847,314	714,045
Zero coupon convertible note (Note 27)	2,000,000	-	-	-	2,000,000	1,984,368
	2,087,207	3,965	69,224	820,476	2,980,872	2,831,971

2010

	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 March 2010 HK\$'000
Accounts payable	8,110	-	-	-	8,110	8,110
Other payables	45,057	2,878	-	-	47,935	47,935
Amount due to an associate	624	-	-	-	624	624
Convertible notes (Note 27)	-	-	155,325	-	155,325	140,232
Zero coupon convertible note (Note 27)	-	-	-	2,000,000	2,000,000	1,709,801
Loan note (Note 28)	-	-	115,000	-	115,000	112,969
	53,791	2,878	270,325	2,000,000	2,326,994	2,019,671

6. FINANCIAL INSTRUMENTS *(Continued)*

6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.
- the fair value of derivative instruments is determined using Binomial Valuation Model based on assumptions set out in Note 27.

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

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2011			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets				
Held-for-trading – listed equity securities	37,626	–	–	37,626

	2010			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets				
Held-for-trading – listed equity securities	45,207	–	–	45,207

6. FINANCIAL INSTRUMENTS (Continued)**6c. Fair value** (Continued)

	2011			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial liabilities				
Embedded derivative component of convertible notes (see Note 6b(iii)(b) above and Note 27 for details)	-	-	106,178	106,178

There were no transfer between Level 1, 2 and 3 in the current year.

7. REVENUE AND SEGMENT INFORMATION

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

	2011 HK\$'000	2010 HK\$'000
Continuing operation		
Revenue – coal mining	-	-

Based on information reported to the chief operating decision maker (i.e. the Board of Directors) for the purpose of resource allocation and performance assessment, the Group's only operating segment is the coal mining business.

The provision of charter flight services was discontinued with effect from 1 March 2010. The total segment revenue derived from the continuing and the discontinued operations is HK\$Nil (2010: HK\$2,392,000) and total segment loss derived from the continuing and the discontinued operations is HK\$97,305,000 (2010: HK\$135,776,000).

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and result

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

For the year ended 31 March 2011

Continuing operation

	Coal mining HK\$'000	Total HK\$'000
Segment revenue	-	-
Segment loss	(97,305)	(97,305)
Unallocated expenses (Note)		(134,717)
Interest income		353
Finance costs		(149,450)
Fair value gain on investment property		7,231
Fair value loss on held-for-trading investments		(7,581)
Fair value gain on derivative component		71,803
Impairment losses on loans to associates		(1,596)
Impairment loss on available-for-sale financial asset		(4,785)
Share of losses of associates		(3,090)
Gain from early redemption of a loan note receivable		8,387
Loss before taxation		(310,750)

For the year ended 31 March 2010

Continuing operation

	Coal mining HK\$'000	Total HK\$'000
Segment revenue	-	-
Segment loss	(71,692)	(71,692)
Unallocated expenses (Note)		(112,656)
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 loss on available-for-sale financial asset		(3,024)
Share of losses of associates		(31,535)
Loss before taxation		(248,521)

Note:

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

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment loss represents the loss from the coal mining operation without allocation of expenses not directly related to operating segments, unallocated interest income, change in fair value of investment property, impairment losses on interests in and loans to associates, impairment loss on available-for-sale financial asset, change in fair value from held-for-trading investments, fair value gain on derivative component, finance costs, share of losses of associates and gain from early redemption of a loan note receivable. 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:

As at 31 March 2011

	HK\$'000
ASSETS	
Segment assets – coal mining	15,254,392
Investment property	105,264
Held-for-trading investments	37,626
Amounts due from associates	202,986
Cash and cash equivalents	4,684
Other unallocated assets (Note)	302,313
Consolidated total assets	15,907,265
LIABILITIES	
Segment liabilities – coal mining	45,203
Convertible notes	2,698,413
Advances from a Director	42,184
Other unallocated liabilities	47,306
Consolidated total liabilities	2,833,106

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

As at 31 March 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
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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
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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 business, available-for-sale financial asset, other assets and other receivables, prepayments and deposits.

Other segment information

For the year ended 31 March

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

Continuing operation – coal mining

	2011 HK\$'000	2010 HK\$'000
Capital additions (Note)	920,383	491,172
Depreciation of property, plant and equipment	18,361	15,975

Note:

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

7. REVENUE AND SEGMENT INFORMATION (Continued)**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 is detailed below:

	Non-current assets	
	2011	2010
	HK\$'000	HK\$'000
Hong Kong	14,677	13,628
Mongolia	15,467,647	14,431,643
Mainland China	117,107	152,766
	15,599,431	14,598,037

Note:

Non-current assets excluded financial instruments.

8. FINANCE COSTS

	2011	2010
	HK\$'000	HK\$'000
Continuing operation		
Interest on borrowings wholly repayable within five years:		
Interest expense:		
– convertible notes (Note 27)	323,711	202,867
– loan note (Note 28)	2,031	2,501
– advances from a Director (Note a)	1,677	–
Less: interest expense capitalised (Note b)	(177,969)	(113,812)
	149,450	91,556

Note:

(a) The amount represents interest paid/payable to Mr. Lo for short term unsecured advances to the Company. The interest expense was charged at the prevailing prime rate quoted by the Hong Kong and Shanghai Banking Corporation Limited per annum.

(b) The weighted average capitalization rate on convertible notes and advances from a Director is 13.16% (2010: 14.07%) per annum on expenditure on road construction which is a qualifying asset.

9. LOSS BEFORE TAXATION

	2011	2010
	HK\$'000	HK\$'000
Continuing operation		
Loss before taxation has been arrived at after charging (crediting):		
Directors' remuneration (Note 12)	20,312	3,215
Other staff costs:		
Salaries and other benefits	74,624	58,878
Retirement benefits scheme contributions (excluded Directors' contributions)	2,059	1,142
Total staff costs (included equity-settled share-based payments)	96,995	63,235
Auditor's remuneration	3,316	2,004
Amortisation on software (included in other expenses)	640	423
Depreciation of property, plant and equipment	27,877	24,177
Direct operating expenses arising from investment property that do not generate rental income	12	11
Impairment loss on deposit and loan and receivable (included in other expenses)	1,566	-
Loss on disposal of property, plant and equipment	15	39
Net exchange (gains) losses (included in other expenses)	(420)	443
Operating lease rental in respect of office premises	17,544	14,813
Write off of prepayments for exploration and evaluation expenditure	-	3,174

10. INCOME TAX EXPENSE

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

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

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

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

10. INCOME TAX EXPENSE (Continued)

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

	2011 HK\$'000	2010 HK\$'000
Loss before taxation from continuing operation	(310,750)	(248,521)
Calculated at a tax rate of 16.5%	(51,274)	(41,006)
Tax effect on income not subject to tax	(13,523)	(12,397)
Tax effect on expenses not deductible for tax purposes	52,456	45,961
Tax effect on tax loss not recognised	8,639	5,524
Effect of different tax rates in other country jurisdictions	3,702	1,918
Income tax expense	-	-

11. DISCONTINUED OPERATION

On 9 December 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 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 an option entitling to the issuer to redeem the loan note before maturity. The principal asset of Glory Key is a Gulfstream G200 aircraft and Glory Key engaged in aircraft leasing business. The disposal was effected for the Group to focus its resources on its mining business. The disposal was completed on 1 March 2010, on which date control of Glory Key passed to VVH.

The loss for the year ended 31 March 2010 from the discontinued operation is analysed as follows:

	2010 HK\$'000
Loss on charter flight service and aircraft leasing operations for the year	64,084
Loss on disposal of charter flight service and aircraft leasing operations	4,800
	68,884

11. DISCONTINUED OPERATION *(Continued)*

The loss on charter flight service and aircraft leasing operations for the year ended 31 March 2010 is analysed as follows:

	2010 HK\$'000
Revenue	2,392
Direct aviation costs	(870)
Depreciation	(7,857)
Impairment loss on aircraft	(24,333)
Impairment loss on deposit paid for acquisition of aircraft (Note)	(23,649)
Other expenses	(9,767)
	(64,084)

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 1 March 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 to approximately HK\$124,610,000 was included in other receivables, prepayments and deposits as at the date of settlement.

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

Cash flows from discontinued operation:

	2010 HK\$'000
Net cash outflows from operating activities	(54,391)
Net cash inflows from investment activities	48,311
Net cash inflows from financing activities	6,079
Net cash outflows	(1)

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of each of the Directors for the year ended 31 March 2011 is as follows:

Name of Directors	Fees HK\$'000	Salaries HK\$'000	Other benefits HK\$'000	Equity- settled share- based payments HK\$'000	Employer's contribution to MPF Scheme HK\$'000	Total HK\$'000
<i>Executive Directors</i>						
Lo Lin Shing, Simon	-	-	1,218	11,905	-	13,123
Liu Zhuo Wei	-	-	-	-	-	-
Yvette Ong	-	1,707	200	992	12	2,911
<i>Non-executive Director</i>						
To Hin Tsun, Gerald	10	-	-	992	-	1,002
<i>Independent Non-executive Directors</i>						
Peter Pun	100	-	-	992	-	1,092
Lau Wai Piu	100	-	-	992	-	1,092
Tsui Hing Chuen, William	100	-	-	992	-	1,092
	310	1,707	1,418	16,865	12	20,312

The remuneration of each of the Directors for the year ended 31 March 2010 is as follows:

Name of Directors	Fees HK\$'000	Salaries HK\$'000	Other benefits HK\$'000	Equity- settled share- based payments HK\$'000	Employer's contribution to MPF Scheme HK\$'000	Total HK\$'000
<i>Executive Directors</i>						
Lo Lin Shing, Simon	-	-	1,129	-	-	1,129
Liu Zhuo Wei	-	-	-	-	-	-
Yvette Ong	-	1,707	57	-	12	1,776
<i>Non-executive Director</i>						
To Hin Tsun, Gerald	10	-	-	-	-	10
<i>Independent Non-executive Directors</i>						
Peter Pun	100	-	-	-	-	100
Lau Wai Piu	100	-	-	-	-	100
Tsui Hing Chuen, William	100	-	-	-	-	100
	310	1,707	1,186	-	12	3,215

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

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Senior executives' emoluments

Of the five individuals with the highest emoluments in the Group, one (2010: none) was Director of the Company whose emoluments are included in Note (a) above. The emoluments of the remaining four (2010: five) highest paid individuals during the year are as follows:

	2011 HK\$'000	2010 HK\$'000
Basic salaries, other allowances and benefits in kind	14,510	16,083
Contributions to MPF Scheme	32	41
Equity-settled share-based payments	3,968	6,169
Termination benefits for loss of office	3,000	-
	21,510	22,293

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2011	2010
HK\$1,500,001 – HK\$2,000,000	-	1
HK\$3,000,001 – HK\$3,500,000	1	-
HK\$4,000,001 – HK\$4,500,000	1	2
HK\$6,000,001 – HK\$6,500,000	1	2
HK\$6,500,001 – HK\$7,500,000	1	-
	4	5

13. LOSS PER SHARE

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

	2011	2010
	HK\$'000	HK\$'000
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share		
Loss from continuing and discontinued operations	(310,750)	(317,405)
Loss from continuing operation	(310,750)	(248,521)
Loss from discontinued operation	-	(68,884)
	2011	2010
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue for calculation of basic and diluted loss per share	6,190,675	6,085,327

Note:

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	Mining structures (Note) HK\$'000	Mineral properties (Note) HK\$'000	Construction in progress HK\$'000	Leasehold improvements HK\$'000	Computer equipment HK\$'000	Furniture, fixtures and office equipment HK\$'000	Plant, machinery and other equipment HK\$'000	Motor vehicles HK\$'000	Aircraft and engines HK\$'000	Total HK\$'000
COST										
At 1 April 2009	54,200	-	-	20,921	5,274	5,301	11,067	26,033	146,844	269,640
Exchange adjustments	-	-	-	26	10	11	-	149	-	196
Additions	-	-	-	5,915	745	950	876	9,884	383	18,753
Written off	-	-	-	-	(21)	-	-	-	-	(21)
Disposals	-	-	-	-	-	-	-	(879)	-	(879)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(147,227)	(147,227)
At 31 March 2010	54,200	-	-	26,862	6,008	6,262	11,943	35,187	-	140,462
Exchange adjustments	-	38,262	-	159	51	64	4	823	-	39,363
Additions	199,344	160	56,069	224	643	279	1,852	7,967	-	266,538
Written off	-	-	-	-	(1,471)	(13)	-	-	-	(1,484)
Transfer from exploration and evaluation assets	3,188	12,875,460	-	-	-	-	-	-	-	12,878,648
Disposals	-	-	-	-	-	-	-	(42)	-	(42)
At 31 March 2011	256,732	12,913,882	56,069	27,245	5,231	6,592	13,799	43,935	-	13,323,485
ACCUMULATED DEPRECIATION AND IMPAIRMENT										
At 1 April 2009	5,116	-	-	6,393	3,148	1,514	761	5,405	22,847	45,184
Exchange adjustments	-	-	-	17	4	4	-	22	-	47
Charge for the year	5,420	-	-	8,861	1,300	1,564	1,114	5,918	7,857	32,034
Written off	-	-	-	-	(21)	-	-	-	-	(21)
Impairment	-	-	-	-	-	-	-	-	24,333	24,333
Disposals	-	-	-	-	-	-	-	(392)	-	(392)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(55,037)	(55,037)
At 31 March 2010	10,536	-	-	15,271	4,431	3,082	1,875	10,953	-	46,148
Exchange adjustments	-	-	-	107	42	35	-	248	-	432
Charge for the year	5,420	-	-	10,220	1,059	1,599	1,308	8,271	-	27,877
Written off	-	-	-	-	(1,471)	(9)	-	-	-	(1,480)
Disposals	-	-	-	-	-	-	-	(19)	-	(19)
At 31 March 2011	15,956	-	-	25,598	4,061	4,707	3,183	19,453	-	72,958
CARRYING VALUE										
At 31 March 2011	240,776	12,913,882	56,069	1,647	1,170	1,885	10,616	24,482	-	13,250,527
At 31 March 2010	43,664	-	-	11,591	1,577	3,180	10,068	24,234	-	94,314

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Note:

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

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

During the year, MoEnCo LLC (“**MoEnCo**”), a wholly owned subsidiary of the Group, has been notified by MRAM that four mining concessions (license no. 2913A, 4322A, 11888A and 15289A) owned by MoEnCo are within the area designated, on a preliminary basis, as land where mineral exploration and mining are prohibited under the MPL. The MRAM further informed MoEnCo on 7 April 2011 that the boundary lines of restricted areas as defined by MPL have not been finally determined and advised MoEnCo continues fulfilling its obligations under the Minerals Law of Mongolia. As such, there was no revocation of these licenses as at 31 March 2011. 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 mineral properties, mining structures and development in progress (Note 17) as at 31 March 2011 amounting to approximately HK\$12,914 million, HK\$241 million and HK\$1,731 million respectively based on the estimated discounted cash flow to be generated from the mining operation on proven reserves. The implementation of the MPL represents a significant uncertainty to the Group, which might have a significant effect on the consolidated financial statements of the Group. If the Group’s affected mining concessions were revoked due to the MPL and the Group was paid compensation significantly less than the acquisition cost and any other costs the Group incurred, the Group would incur a significant impairment loss on the corresponding mineral properties.

The following estimated useful lives are used for the depreciation of property, plant and equipment using the straight-line method:

Leasehold improvements	over unexpired lease terms
Computer equipment	3 years
Furniture, fixtures and office equipment	5 – 10 years
Plant, machinery and other equipment	10 years
Motor vehicles	5 years
Aircraft and engines	12 – 20 years
Construction in progress	commences when the assets are ready for their intended use
Mineral properties	based on resources on a unit-of-production basis
Mining structures	based on resources on a unit-of-production basis or useful life, whichever is appropriate

On 2 June 2010, based on the collective results of various explorations, the Directors considered the technical feasibility and commercial viability of extracting mineral resources of the Khushuut coking coal mine became demonstrable and this coal mine had moved to a development phase. As a result, the corresponding exploration and evaluation assets were transferred to property, plant and equipment as mining structures and mineral properties.

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

15. INVESTMENT PROPERTY

	Non-current assets	
	2011	2010
	HK\$'000	HK\$'000
At beginning of the year	94,278	104,046
Increase (decrease) in fair value recognised in the consolidated income statement	7,231	(10,689)
Exchange adjustment	3,755	921
At end of the year	105,264	94,278

The fair value of the Group's investment property was revalued by reference to market evidence of transaction prices for similar properties in the similar location and condition by Cushman & Wakefield Valuation Advisory Services (HK) Ltd., an independent qualified valuer at 31 March 2011. The investment property is located in Beijing, Mainland China and is held under a lease with 55 years remaining at 31 March 2011.

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

16. INTANGIBLE ASSETS

	Software
	HK\$'000
COST	
At 1 April 2009	1,029
Additions	514
Written off	(45)
At 31 March 2010 and 1 April 2010	1,498
Additions	876
At 31 March 2011	2,374
ACCUMULATED AMORTISATION	
At 1 April 2009	220
Charge for the year	423
Written off	(22)
At 31 March 2010 and 1 April 2010	621
Charge for the year	640
At 31 March 2011	1,261
CARRYING VALUE	
At 31 March 2011	1,113
At 31 March 2010	877

The above intangible assets have finite useful lives. These intangible assets are amortised on a straight-line basis over 3 years.

17. DEVELOPMENT IN PROGRESS

During the year ended 31 March 2009, an agreement was entered into between the Governor's Administration Office of Khovd Province of Mongolia (the "Governor") and MoEnCo LLC, a wholly owned subsidiary of the Company, regarding the right of use of a road granted by the Governor to MoEnCo LLC subject to certain conditions. Under the terms of the agreement, MoEnCo LLC will construct a road at its own cost from the Group's mine areas in Khushuut, western Mongolia to the Yarant border crossing with Xinjiang, the People Republic of China ("the PRC"), with the construction permit granted to MoEnCo LLC from the Ministry of Road, Transportation and Tourism of the Mongolian government. In return, MoEnCo LLC enjoys the right, which was granted at the date of the agreement, for the unrestricted use of the road for 30 years (the "approved period"). The road will be opened to public use subject to certain weight restrictions whereupon the Group may direct users including commercial users. The Group is also responsible for maintenance of the road during the approved period. The Group will use the road mainly for the purpose of transporting coal from its mine areas to its customers in the PRC. The road was still under construction at 31 March 2011.

18. EXPLORATION AND EVALUATION ASSETS

	Mining and Exploration Rights (Note c) HK\$'000	Others (Note d) HK\$'000	Total HK\$'000
COST			
At 1 April 2009	12,512,186	246,534	12,758,720
Acquisition (Note a)	285,676	–	285,676
Additions	–	121,598	121,598
Exchange adjustments	23,733	–	23,733
At 31 March 2010 and 1 April 2010	12,821,595	368,132	13,189,727
Additions	–	74,833	74,833
Transfer (Note b)	(12,535,919)	(342,729)	(12,878,648)
At 31 March 2011	285,676	100,236	385,912

18. EXPLORATION AND EVALUATION ASSETS (Continued)

Notes:

- (a) On 10 July 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**"). Z LLC 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, representing the market price of the Company's shares on 27 July 2009; and (3) the remaining consideration of US\$5,000,000 (approximately HK\$39,000,000) in cash which is 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 31 March 2010 and 2011. The total consideration for this amounted to HK\$285,730,000 and the acquisition was completed on 27 July 2009. At the acquisition date, the Millennium Group was holding cash of HK\$55,000 and the exploration concession. The acquisition was considered as an assets acquisition and the Group identified and recognised the individual identifiable assets and liabilities being acquired and allocated acquisition costs 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 are of the opinion that the fair value of the exploration concession acquired cannot be measured reliably, so 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 cost 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.

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 the MPL and Z LLC was requested to submit the estimated compensation for termination of licenses with supporting documents. After taking legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRAM's request. According to the best knowledge of the Group, there was no revocation of its licences as at 31 March 2011. The management also considered 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 31 March 2011 amounting to approximately HK\$286 million. The implementation of the MPL represents a significant uncertainty to the Group, which might have a significant effect on the consolidated financial statements of the Group. If the Group's iron ore exploration concession was revoked due to the MPL and the Group was paid compensation significantly less than the consideration the Group paid to acquire this concession, the Group would incur a significant impairment loss on the corresponding exploration and evaluation assets.

- (b) On 2 June 2010, based on collective results of various explorations, the Directors considered the technical feasibility and commercial viability of extracting mineral resources of the Khushuut coking coal mine became demonstrable and this coal mine has moved to a development phase. As a result, its corresponding exploration and evaluation assets were transferred to property, plant and equipment as mining structures and mineral properties.
- (c) Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for two successive periods of 3 years each and mining licences for two successive periods of 20 years each. The Group has renewed all exploration and mining licenses before the expiry date.
- (d) Others represent the geological and geophysical costs, drilling and exploration expenses.

19. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES

	2011	2010
	HK\$'000	HK\$'000
Cost of associates		
– unlisted shares, at cost	47,364	135,763
Share of results	(11,235)	(37,528)
Impairment losses	–	(56,636)
Less: transfer to available-for-sale financial asset (Note 20)		
– cost	–	(85,166)
– share of results	–	29,383
– impairment losses	–	55,783
Less: disposal of associate (Note 32)		
– cost	(44,234)	–
– share of results	8,105	–
	–	41,599
Amounts due from associates	215,143	206,241
Impairment losses	(5,036)	(2,587)
	210,107	203,654
Analysis for reporting purposes:		
Non-current	200,000	200,000
Current	10,107	3,654
	210,107	203,654

The summarised financial information in respect of the Group's associates is set out below:

	2011	2010
	HK\$'000	HK\$'000
Total assets	221,004	342,775
Total liabilities	(252,935)	(229,007)
	(31,931)	113,768
Group's share of net assets of associates	–	41,599
Revenue	–	30,955
Loss for the year	(15,091)	(396,344)
Group's share of results of associates for the year	(3,090)	(31,535)

19. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES *(Continued)*

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

	2011 HK\$'000	2010 HK\$'000
Unrecognised share of losses of associates for the year	668	1,604
Accumulated unrecognised share of losses of associates	3,255	2,587

Details of the associates at 31 March 2011 and 2010 are as follows:

Name	Place of establishment/ incorporation	Particulars of issued/ registered capital	Interest held		Principal activities
			2011	2010	
亞聯公務機有限公司 ¹	PRC	100,000,000 shares of RMB1.00 each	-	43%	Provision of charter flight services and aircraft management
Upper Easy Enterprises Limited*	British Virgin Islands	5 shares of US\$1.00 each	20%	20%	Investment holding
eGuanxi (Cayman) Limited	Cayman Islands	6,667,000 shares of US\$1.00 each	25%	25%	Dormant
MoOiCo LLC ("MoOiCo") ^{2*}	Mongolia	US\$10,000	20%	20%	Oil exploration
Profit Rise International Private Limited ^{3*}	Singapore	100 shares of S\$1.00 each	20%	20%	Investment holding

¹ Disposed during the year

² Interest indirectly held by Profit Billion International Private Limited

³ Interest indirectly held by Mongolia Resources (Hong Kong) Company Limited

* Mr. Liu, one of the shareholders of the Company, owns the remaining shares in these associates

There is no capital commitment contracted but not provided for in respect of further capital investment in an associate as at 31 March 2011 (2010: Nil).

At 31 March 2010 and 2011, the amounts due from associates included an advance of HK\$200,000,000 granted to Upper Easy Enterprises Limited ("**Upper Easy**"), of which Mr. Liu is one of the shareholders of the Company and he owns the remaining interest in Upper Easy. The advance was made for the purpose of securing a mineral resource project and therefore classified as a non-current asset. The expected timing for securing the project has been extended to on or before 31 December 2011. The remaining balances represent shareholder's loans to MoOiCo, a company which is engaged in an oil exploration project in Mongolia. That amount is unsecured, interest free and repayable on demand.

The amount due to an associate is unsecured, interest free and repayable on demand.

20. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2011	2010
	HK\$'000	HK\$'000
Unlisted equity investment, transferred from interests in associates (Note 19)	-	-
Addition (Note)	8,699	3,024
Less: impairment loss	(4,785)	(3,024)
	3,914	-

Note:

On 23 March 2010, the equity interest of the Company in Mongolia Resources (Hong Kong) Company Limited ("**Mongolia Resources Hong Kong**"), an investment holding company which owns a 100% beneficial interest of Xinjiang Kai Yu Yuan and Xinjiang Kai Yu Tong and a 80% beneficial interest of Xinjiang Kai Yu Hang Minerals Company Limited, was diluted from 25% to 19% due to additional shares allotted to the existing major shareholder. Mr. Lo had resigned as a director of Mongolia Resources Hong Kong. Significant influence over Mongolia Resources Hong Kong is considered to have been lost immediately after the equity dilution took place. The cost of investments less share of associate results and impairment losses previously made was redesignated as an available-for-sale financial asset. At the time of equity dilution, the carrying amount of this associate was zero.

The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimate cannot be measured reliably, in which impairment loss is determined by the result of investment.

A capital contribution of HK\$8,699,000 (2010: HK\$3,024,000) by the Group had been made in proportion to the percentage of shareholding.

21. LOAN NOTE RECEIVABLE

	2011	2010
	HK\$'000	HK\$'000
At beginning of the year	37,667	-
Addition, at fair value	-	37,390
Add: interest income accrued	233	277
Add: gain on early redemption	8,387	-
Less: repayment received	(46,287)	-
At end of the year	-	37,667
Analysed for reporting purposes as:		
Non-current assets	-	37,667

Note:

The loan note had a face value of HK\$46 million and was issued by VVH at 4% interest per annum and was due to mature on 28 February 2012. It represented part of the consideration for the disposal of the subsidiary (see Note 11) during 2010. The loan note was fair valued upon initial recognition. The effective interest rate was 7.61% per annum. The loan note was early repaid in full during the year.

22. PREPAYMENTS FOR EXPLORATION AND EVALUATION EXPENDITURE

	2011	2010
	HK\$'000	HK\$'000
Road improvement and drilling equipment transport	11,558	11,558
Exploration drilling	10,458	10,484
	22,016	22,042

23. DEPOSITS FOR PROPERTY, PLANT AND EQUIPMENT AND OTHER LONG-TERM DEPOSITS

	2011	2010
	HK\$'000	HK\$'000
Electricity supply at mine site in Mongolia	48,898	48,898
Tractors, motor vehicles and others	14,563	14,658
Security deposit on contract mining and equipment purchase	31,200	–
	94,661	63,556

24. HELD-FOR-TRADING INVESTMENTS

	2011	2010
	HK\$'000	HK\$'000
Equity securities of companies listed in Hong Kong	37,626	45,207

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

25. CASH AND CASH EQUIVALENTS

	2011	2010
	HK\$'000	HK\$'000
Bank balances and cash	10,175	58,104
Short-term bank deposits	–	63,195
	10,175	121,299

The weighted average effective interest rate on short-term bank deposits was 0.16% (2010: 0.15%) per annum. The maturity days of the short-term bank deposits ranged from one week to one month (2010: one week to one month). Cash at bank earns interest at rates based on daily bank deposit rates.

26. ACCOUNTS PAYABLE

The ageing analysis of accounts payable presented based on invoice date at the reporting date is as follows:

	2011 HK\$'000	2010 HK\$'000
Current to 30 days	23,643	967
31 to 60 days	10,441	7,141
61 to 90 days	1,087	2
Over 90 days	1,936	–
	37,107	8,110

27. CONVERTIBLE NOTES

On 29 January 2008, the Company issued a 3% convertible note (the “**Convertible Note**”) at a total nominal value of HK\$142.5 million. The Convertible Note had a maturity period of three years from the issue date to 28 January 2011 and could be converted into 1 ordinary share of the Company at HK\$0.02 each for every HK\$0.285 convertible note at the holder’s option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment. Interest of 3% per annum will be paid up until the settlement date. The Convertible Note was fully converted at the maturity date (Note 30(b)).

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

The holder of the Zero Coupon Convertible Note has agreed to redeem the note by reissuance of a 3-year 3% coupon convertible note in the principal amount of HK\$2 billion (the “**3% CTF Convertible Note**”). The subscription of the 3% CTF Convertible Note was completed in June 2011.

The Convertible Note and Zero Coupon Convertible Note contain two components, a liability and an equity element. The equity element is presented in equity as part of the “capital reserve”. The effective interest rates of the liability component for the Convertible Note and Zero Coupon Convertible Note are 11.23% and 14.14% per annum respectively.

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

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

27. CONVERTIBLE NOTES (Continued)

On 3 November 2010, the Company entered into a subscription agreement with Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited (the “Subscriber”) under which the Subscriber has conditionally agreed to (i) subscribe for a 3.5% unsecured convertible note in the principal amount of HK\$466.8 million (the “First Note”) and (ii) accept an option exercisable within six months of the issue of the Note to subscribe for a further convertible note in the principal amount of HK\$311.2 million (the “Second Note”). Both the First Note and Second Note (the “OZ Convertible Note”) have a maturity period of three years from the issue date. The First Note and Second Note can be converted into 1 ordinary shares of the Company at HK\$0.02 each for every HK\$3.4 per the Company’s share and HK\$4.4 per the Company’s share respectively. The subscription of the First Note was completed on 12 November 2010. Interest of 3.5% per annum will be paid annually in arrears on 3 November.

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

The movement of the liability component of the Convertible Note, Zero Coupon Convertible Note, GI Convertible and OZ Convertible Note and derivative component of GI Convertible Note and OZ Convertible Note for the year is set out below:

	Liability component		Derivative component		Total	
	2011 HK\$’000	2010 HK\$’000	2011 HK\$’000	2010 HK\$’000	2011 HK\$’000	2010 HK\$’000
At beginning of the year	1,850,033	1,647,166	-	-	1,850,033	1,647,166
Initial recognition	570,814	-	177,981	-	748,795	-
Interest expense	323,711	202,867	-	-	323,711	202,867
Amortization of transaction cost	3,001	-	-	-	3,001	-
Conversion of convertible note	(155,324)	-	-	-	(155,324)	-
Fair value gain on derivative component	-	-	(71,803)	-	(71,803)	-
At end of the year	2,592,235	1,850,033	106,178	-	2,698,413	1,850,033

Analysed for reporting purposes as:

	2011 HK\$’000	2010 HK\$’000
Current liabilities	1,996,516	140,232
Non-current liabilities	701,897	1,709,801
	2,698,413	1,850,033

27. CONVERTIBLE NOTES (Continued)**GI Convertible Note**

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

	6 September 2010	31 March 2011
Stock price	HK\$3.060	HK\$1.570
Exercise price	HK\$4.000	HK\$4.000
Volatility (note)	55%	92%
Dividend yield	0%	0%
Option life	3 years	2.44 years
Risk free rate	0.541%	0.857%

Note: The volatility used in the model was determined with reference to the average of the comparable companies' historical volatility.

The fair value of the convertible note with embedded derivatives were determined with reference to a valuation report carried out by an independent and recognised international business valuers, on issue date at approximately HK\$300,000,000. As at 31 March 2011, the liability component of the convertible note is HK\$251,904,000 and the fair value of the derivative component of the convertible note is HK\$23,799,000. No conversion was noted in 2011.

OZ Convertible Note

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

	3 November 2010	31 March 2011
Stock price	HK\$2.910	HK\$1.570
Exercise price	HK\$3.400	HK\$3.400
Option life	3 years	2.62 years
Risk free rate	0.603%	0.944%

The fair value of the convertible note with embedded derivatives were determined with reference to a valuation report carried out by an independent and recognised international business valuers, on issue date at approximately HK\$466,800,000. As at 31 March 2011, the liability component of the convertible note is HK\$355,963,000 and the fair value of the derivative component of the convertible note is HK\$82,379,000. No conversion was noted in 2011.

28. LOAN NOTE

Under the terms of the loan note, the loan note with a principal amount of HK\$787,500,000 was unsecured, interest bearing at 5% per annum and had a 3-year maturity period but could be repaid before maturity at the discretion of the Company at its principal amount and accrued interest up to the redemption date. The loan note was issued as part of the consideration to acquire mining and exploration rights and was fair valued at initial recognition with an effective interest rate of 10.43% per annum.

The loan note was fully repaid during the year ended 31 March 2011.

29. DEFERRED INCOME TAX ASSETS

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 March 2011, estimated tax losses of the Group not utilised amounted to HK\$179,679,000 (2010: HK\$104,954,000). No deferred tax asset has been recognised for these tax losses as it is uncertain as to whether there will be sufficient future taxable profits to utilise these tax losses. Except for tax losses of HK\$44,427,000 (2010: HK\$40,572,000) expiring within 1 to 4 years, the remaining balances have no expiry date.

30. SHARE CAPITAL

Authorised and issued share capital

	2011 HK\$'000	2010 HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.02 each	300,000	300,000
	Number of ordinary shares at HK\$0.02 each	Amount HK\$'000
Issued and fully paid:		
At 1 April 2009	6,048,220,363	120,964
Issue of shares upon		
– Acquisition of an exploration right (Note 18a)	54,577,465	1,092
– Exercise of share options (Note a)	100,000	2
At 31 March 2010 and 1 April 2010	6,102,897,828	122,058
Issue of shares		
– Exercise of share options (Note a)	3,650,000	73
– Conversion of convertible note (Note b)	500,000,000	10,000
At 31 March 2011	6,606,547,828	132,131

30. SHARE CAPITAL (Continued)

Note:

- (a) During the year, share options to subscribe for 3,650,000 (2010: 100,000) shares were exercised, of which HK\$73,000 (2010: HK\$2,000) was credited to share capital and the balance of HK\$11,661,000 (2010: HK\$311,000) was credited to the share premium account, raising proceeds of HK\$8,047,000 (2010: HK\$213,000).
- (b) On 28 January 2011, the Convertible Note with the principal amount of HK\$142,500,000 and the option to subscribe for 500,000,000 (2010: Nil) shares was converted (Note 27), of which HK\$10,000,000 (2010: HK\$ Nil) was credited to share capital and the balance of HK\$145,324,000 (2010: HK\$ Nil) was credited to the share premium account.

31. SHARE-BASED PAYMENT COMPENSATION**Equity-settled share option scheme**

Under the share option schemes adopted by the Company on 28 August 2002, options were granted to certain directors and employees of the Group entitling them to subscribe for shares of the Company. Options may be exercised at any time from the date of grant of the share option.

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

	2011		2010	
	Weighted average exercise price per share HK\$	Number of share options	Weighted average exercise price per share HK\$	Number of share options
Exercisable at beginning of the year	2.7871	10,650,670	3.9147	10,090,870
Granted	4.1100	11,800,000	3.3998	4,500,000
Exercised	2.2047	(3,650,000)	2.1340	(100,000)
Lapsed/cancelled	6.142	(250,000)	6.4859	(3,840,200)
Exercisable at end of the year	3.6979	18,550,670	2.7871	10,650,670

Options exercised during the year ended 31 March 2011 resulted in 3,650,000 ordinary shares (2010: 100,000) being issued at the weighted average exercise price of HK\$2.2047 (2010: HK\$2.1340) each. The related weighted average share price at the time of exercise was HK\$2.6601 (2010: HK\$4.070) per share.

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

31. SHARE-BASED PAYMENT COMPENSATION *(Continued)*

Equity-settled share option scheme *(Continued)*

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

Date of grant	Exercise price HK\$	Exercisable period	Number of shares subject to options	
			2011	2010
1-3-2005	0.1695 (Note a)	1-3-2005 to 28-2-2012	670	670
18-8-2008	6.142 (Note b)	18-8-2008 to 17-8-2010	-	250,000
2-2-2009	2.134 (Note c)	2-2-2009 to 1-2-2012	2,250,000	2,900,000
6-2-2009	2.22 (Note c)	6-2-2009 to 5-2-2011	-	3,000,000
1-4-2009	2.358	1-4-2009 to 31-3-2011	500,000	500,000
13-8-2009	2.890	13-8-2009 to 12-8-2011	2,000,000	2,000,000
13-11-2009	4.170	13-11-2009 to 12-11-2011	2,000,000	2,000,000
09-04-2010	4.110	9-4-2010 to 8-4-2015	11,800,000	-
			18,550,670	10,650,670

Notes:

- (a) The exercise price was adjusted from HK\$0.1933 to HK\$0.1695 pursuant to the rights issue of the Company during the year ended 31 March 2006.
- (b) These options lapsed or were cancelled during the year.
- (c) These options were partially/fully exercised during the year.

31. SHARE-BASED PAYMENT COMPENSATION (Continued)**Equity-settled share option scheme** (Continued)

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

	1 April 2009	13 August 2009	13 November 2009	9 April 2010
Option value (at grant date)	HK\$490,245	HK\$2,543,300	HK\$3,626,140	HK\$23,413,555
Fair value per option (at grant date)	HK\$0.980	HK\$1.272	HK\$1.813	HK\$1.984
Significant inputs into the valuation model:				
Exercise price at grant date	HK\$2.358	HK\$2.89	HK\$4.17	HK\$4.11
Share price at grant date	HK\$2.24	HK\$2.89	HK\$4.17	HK\$4.11
Expected volatility (Note)	119.13%	116.85%	112.74%	113.46%
Risk-free interest rate	0.730%	0.504%	0.356%	2.008%
Life of options	2 years	2 years	2 years	5 years
Expected dividend yield	0%	0%	0%	0%

Note:

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

The Group recognised a total expense of HK\$23,413,555 for the year ended 31 March 2011 (2010: HK\$6,659,685) in relation to share options granted by the Company.

32. DISPOSAL OF SUBSIDIARIES

On 1 September 2010, the Group disposed of its 100% equity interest in Business Aviation Asia Group Limited and its subsidiary (collectively the “Disposal Group”) to Wellington Equities Inc., which is wholly and beneficially owned by Mr. Lo. The principal activity of the Disposal Group is investment holding of a 43% equity interest in the PRC company which is principally engaged in aircraft charter, aircraft management, aircraft maintenance and related businesses.

The net assets of the Disposal Group at the date of disposal were as follows:

	HK\$'000
Net assets disposed of	
Interest in an associate	36,129
Cash and cash equivalents	46
	36,175
Satisfied by:	
Cash	36,175
Loss on disposal of a subsidiary	
Consideration	36,175
Net assets disposed of	(36,175)
	-
Net cash inflow arising on disposal:	
Total cash consideration received	36,175
Cash and cash equivalents disposed of	(46)
	36,129

The subsidiary disposed of during the year contributed to the Group’s revenue and losses approximately HK\$Nil and HK\$8,335,000 respectively.

No tax charge or credit arose from the loss on the disposal.

32. DISPOSAL OF SUBSIDIARIES *(Continued)*

On 1 March 2010, the Group disposed of its entire interest in Glory Key which provided charter flight services.

The net assets of Glory Key at the date of disposal were as follows:

	HK\$'000
Net assets disposed of	
Property, plant and equipment	92,190
Account receivables	773
Other receivables	800
Account and other payables	(2,879)
	90,884
Satisfied by:	
Cash	48,694
Loan note, at fair value (Note 21)	37,390
	86,084
Loss on disposal of a subsidiary	
Consideration received and receivable	86,084
Net assets disposed of	(90,884)
	(4,800)
Net cash inflow on disposal of a subsidiary	48,694

The subsidiary disposed of in the year ended 31 March 2010 contributed to the Group's revenue and losses approximately HK\$2,392,000 and HK\$39,842,000 respectively.

No tax charge or credit arose from the loss on the disposal.

33. MAJOR NON-CASH TRANSACTION

During the year ended 31 March 2011, non-cash transaction has been taken place as follows:-

On 28 January 2011, the Convertible Note with the principal amount of HK\$142,500,000 and the option to subscribe for 500,000,000 (2010: Nil) shares was converted (Note 27), of which HK\$10,000,000 (2010: HK\$ Nil) was credited to share capital and the balance of HK\$145,324,000 (2010: HK\$ Nil) was credited to the share premium account. Further details are set out in Notes 27 and 30 to the financial statements.

34. COMMITMENTS

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

(a) Commitments under operating leases

At 31 March 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2011 HK\$'000	2010 HK\$'000
Not later than one year	13,029	15,186
Later than one year and not later than five years	15,889	3,633
	28,918	18,819

Operating leases related to offices and staff quarters with lease terms of between 1 to 5 years (2010: 1 to 5 years).

(b) Capital commitment

At 31 March 2011, the Group had capital commitments contracted for but not provided in the consolidated financial statement amounting to approximately HK\$370,762,000 (2010: HK\$179,837,000). These commitments are for the following projects:

	2011 HK\$'000	2010 HK\$'000
Road construction (Note 17)	240,843	53,861
Road improvement and drilling equipment transport (Note 18)	34,455	34,455
Exploration drilling (Note 18)	30,087	46,319
Water drilling	18,976	4,068
Rotary Breaker	10,374	–
Mine design	472	454
Coal processing plant design	1,059	–
Custom facility design	1,018	–
Power plant design	781	–
Other exploration related commitments	32,697	36,737
Purchase of property, plant and equipment	–	3,516
Purchase of intangible assets	–	427
	370,762	179,837

35. FINANCIAL INFORMATION OF THE COMPANY

	2011 HK\$'000	2010 HK\$'000
Total assets	15,924,587	15,369,630
Total liabilities	(3,293,453)	(2,449,066)
Net assets	12,631,134	12,920,564
Financed by:		
Equity		
Capital and reserves attributable to owners of the Company		
Share capital	132,131	122,058
Reserves	12,499,003	12,798,506
	12,631,134	12,920,564

Reserves

	Share premium HK\$'000	Contributed surplus (Note) HK\$'000	Capital reserve HK\$'000	Share options reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 April 2009	9,138,392	199,594	4,184,166	13,181	(452,344)	13,082,989
Loss for the year	-	-	-	-	(459,454)	(459,454)
Recognition of equity-settled share-based payments	-	-	-	6,660	-	6,660
Issue of shares						
- Acquisition of an exploration right	168,100	-	-	-	-	168,100
- Exercise of share options	311	-	-	(100)	-	211
Balance at 31 March 2010 and 1 April 2010	9,306,803	199,594	4,184,166	19,741	(911,798)	12,798,506
Loss for the year	-	-	-	-	(476,215)	(476,215)
Recognition of equity-settled share-based payments	-	-	-	23,414	-	23,414
Issue of shares						
- Exercise of share options	11,661	-	-	(3,687)	-	7,974
- Conversion of convertible note	3,674,542	-	(3,529,218)	-	-	145,324
Balance at 31 March 2011	12,993,006	199,594	654,948	39,468	(1,388,013)	12,499,003

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

36. RELATED PARTY TRANSACTIONS

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

(a) Flight services provided to

	2011 HK\$'000	2010 HK\$'000
Associates	-	1,104

(b) Services rendered by

	2011 HK\$'000	2010 HK\$'000
Associates	312	11,606
Related party	628	-

A Director and a substantial shareholder of the Company is also the common director of a related company.

(c) Advances from a Director

	2011 HK\$'000	2010 HK\$'000
Balance of advances from a Director	42,184	-
Interest paid/payable to director	1,677	-

(d) Key management compensation

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

	2011 HK\$'000	2010 HK\$'000
Basic salaries, other allowances and benefits in kind	17,111	19,286
Equity-settled share-based payments	20,834	6,169
Contributions to MPF Scheme	60	53
	38,005	25,508

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 March 2011 and 2010:

Name	Place of incorporation	Particulars of issued share capital	Effective interest held		Principal activities
			2011	2010	
Business Aviation Asia Limited	Hong Kong	1 share of HK\$1.00	Nil [#]	100%	Investment holding
Cyber Network Technology Limited*	British Virgin Islands	1 share of US\$1.00	100%	100%	Investment holding
Gamerian Limited*	British Virgin Islands	1 share of US\$1.00	100%	100%	Investment holding
Mongolia Energy Corporation (Greater China) Limited	Hong Kong	2 shares of HK\$1.00 each	100%	100%	Management services
Virtue Team Investments Limited	Hong Kong	2 shares of HK\$1.00 each	100%	100%	Management services
Mongolia Energy Corporation Services Limited	Hong Kong	2 shares of HK\$1.00 each	100%	100%	Provision of secretarial and nominee services
MoEnCo LLC	Mongolia	1,010,000 shares of US\$1.00 each	100%	100%	Minerals exploration and mining activities

* Subsidiaries directly held by the Company

Subsidiary was disposed during the year

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

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

38. RETIREMENT BENEFITS SCHEME

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

Five Years Summary of Results, Assets and Liabilities

Results of the Group for the year ended March 31

	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Turnover					
Continuing operations	39,773	29,952	9,076	-	-
Discontinued operation	-	-	2,005	2,392	-
Profit(loss) attributable to owners of the Company	11,849	74,400	(438,387)	(317,405)	(310,750)
Earnings(loss) per share (HK cents)					
- Basic	0.62	23.32	(7.25)	(5.22)	(5.02)
- Diluted	0.61	23.31	(7.25)	(5.22)	(5.02)

Assets and liabilities of the Group at March 31

	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Total assets	843,079	14,218,207	15,047,269	15,169,958	15,907,265
Less: total liabilities	(201,685)	(1,123,085)	(1,787,976)	(2,020,980)	(2,833,106)
Total net assets	641,394	13,095,122	13,259,293	13,148,978	13,074,159

Corporate Information

DIRECTORS

Executive Directors

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

Non-Executive Director

Mr. To Hin Tsun, Gerald

Independent Non-Executive Directors

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

COMPANY SECRETARY

Mr. Tang Chi Kei

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Public Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRAR

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

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

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STOCK CODE

276

中文譯本

本年報之中文譯本可向蒙古能源有限公司索取。中英文版本內容如有歧異，概以英文版本作準。

CHINESE TRANSLATION

The Chinese translation of this Annual Report is available on request from Mongolia Energy Corporation Limited. Where the English and the Chinese texts conflict, the English text prevails.

This report is printed on paper in accordance with the standards below:

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Lignin Free
Dioxin Free
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ISO9001
ISO14001**



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