MEC

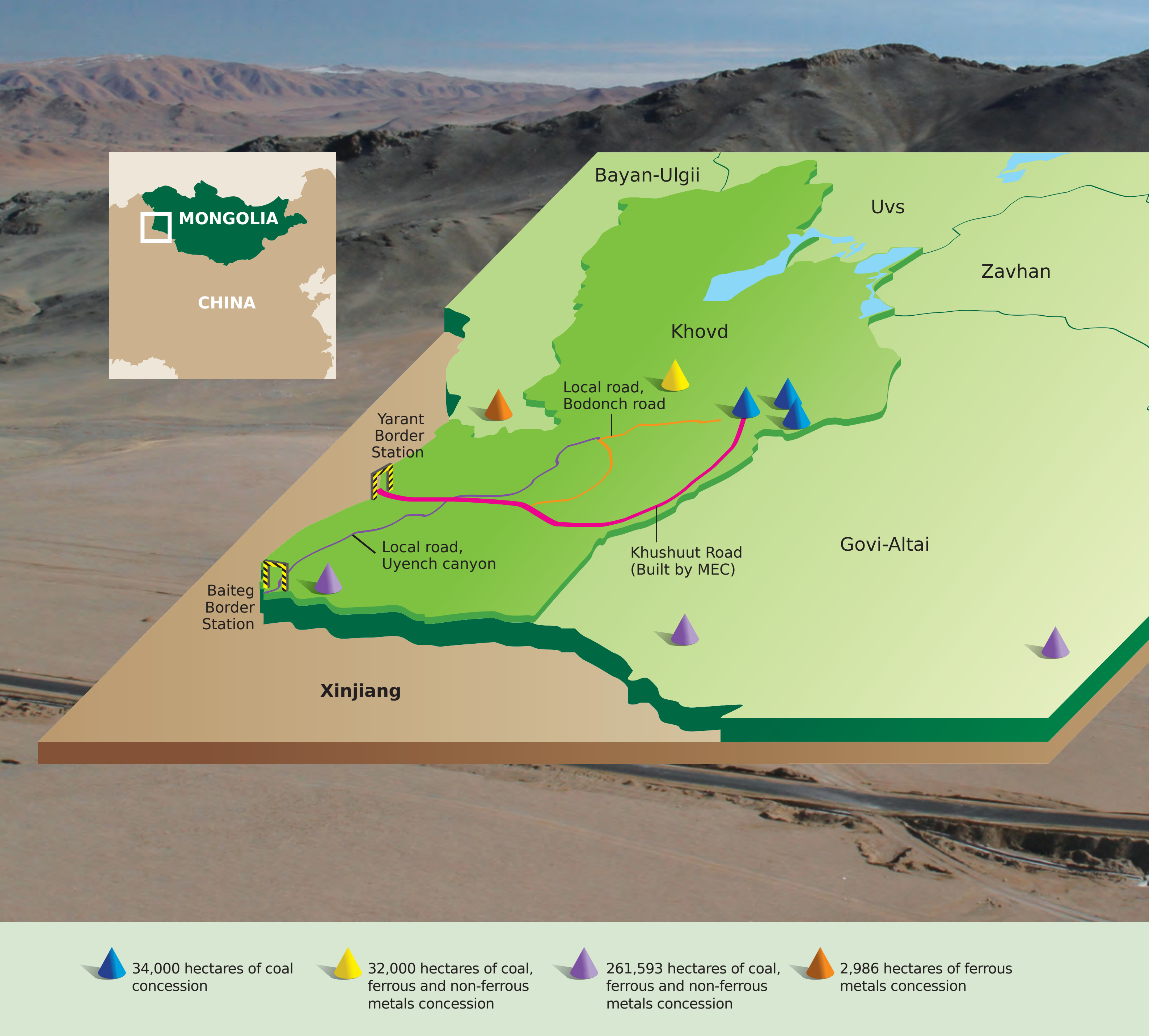
MONGOLIA ENERGY CORPORATION

蒙古能源有限公司

Incorporated in Bermuda with limited liability

Stock Code: 276

Annual Report 2012



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.

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

Chairman's Statement

"There is no substitute for hard work."
— Thomas Edison

Dear Shareholders,

In this financial year, we completed building the Khushuut Road, secured its commission from the Mongolian authority, and commenced commercial production shortly thereafter. These progress mark a milestone to MEC after years of our efforts and hard works.

Although it is a new chapter for us, challenges continue to follow. The commercial production commenced near the close of this financial year, therefore, a low level of sales activities was recorded. This was expected by us at the initial stage of commercial operation. Our devoted staff are looking ways to improve our start-up issues facing us, and we hope to gradually ramp up our production and improve our sales price.

This year we recorded a massive impairment loss in respect of our mine assets, and this was based on the impairment analysis performed by an independent qualified valuer. A variety of factors and assumptions were taken into account by the valuer in arriving with the impairment. The major factor contributed to the significant impairment loss was due to a change made to our mine's infrastructure plan caused by the delay in obtaining a water permit for construction of a coal processing plant. As an interim measure, we have planned to build a coal washing plant in Xinjiang. In the immediate term, we have engaged a coal trading company with a washing plant to provide coal processing services to us. The impairment loss has no impact on cash flow in the financial year.

Mongolia has tightened up foreign investments in its strategic sectors by passing the Foreign Investment Regulation Law in May 2012. Investment or participation in the minerals sector by foreign investors of exceeding 1/3 or more of a Mongolian entity of the sector will require approval of the Mongolian government. It has no impact on our existing operation but we anticipate this may take longer lead time to get our new projects approved by the Mongolian government in the future. As part of our expansion plan, we will expand our horizon and actively assess potential resources investment opportunities in our nearby market, Xinjiang.

The Mongolian economy continued to grow at a very rapid pace; expanding by 16.7 percent year-on-year in the first quarter of this year and coal export was its largest export earner. Meanwhile, the Europe problems continue to batter the global economy. Coking coal demand in China also displayed a downward trend due to the gloomy global economy in the first half of this year. Having said this, China was still the world's largest steel producer and consumer and a net coking coal importer last year. Against the backdrop of weak global economy, premium quality coking coal still has its market in China. Although we do expect the coking coal prices will fluctuate at the current stage, Xinjiang is a unique market as a result of the China's Go-West Policy, expansion on the western part of China is on the way with the continued growth of steel mills in Xinjiang. Our quality coking coal has the demand from the steel mills in the Xinjiang market. We strongly believe the economy of China will continue to boost and are confident that our strategic location near the Xinjiang market will reap the economic growth of China. Having coming into commercial operation, we will work proactively to expand our customer base in the coming period.

In government relationship and community affairs, we entered into two cooperation agreements with the Darvi soum and Tsetseg soum of Mongolia. The purpose of such agreements is to enhance cooperation between the local governments and provide successful implementation of our projects and investments while in return, we are required to provide support to the local communities. We will continue to contribute to the local communities around us and help them to build up a better living environment. As a responsible corporation, we will continue to protect and preserve the natural environment around us, contribute to all rehabilitation works and to provide a better place for our sustainable growth.

Mr. James Schaeffer, our former chief executive officer, retired in June this year. He contributed a lot to MEC since he joined us in 2007 and led our operation from inception up to commercial operation today. We now have a team of technical experts and professionals under the leadership of our managing director, Ms. Yvette Ong. We will continue to move forward to accomplish our mission.

I foresee the coming period will be a mix of opportunities and challenges. We have been through all the hard times in the past and I need your continuous support on our road ahead.

Lo Lin Shing, Simon
Chairman

29 June 2012

Management Discussion and Analysis

OVERVIEW

Our principal project is the Khushuut Coking Coal Project. The Khushuut Coal Mine is located approximately 1,350 km west of Ulaanbaatar in the aimag (province) of Khovd in Western Mongolia. The Khushuut Coal Mine is about 311 km from the Xinjiang Takeshenken border, connecting by the Khushuut Road built by us.

During the financial year ended 31 March 2012 (the "**Financial Year**"), we achieved completion of the Khushuut Road, secured the approval from the government authorities for the use of the road and commenced commercial coal shipment thereafter.

BUSINESS REVIEW

Khushuut Coking Coal Project

Khushuut Coal Resources

During the Financial Year, we had not conducted resources update program to our Khushuut coal deposit. Therefore, our JORC in-place resources remain the same, i.e. approximately 141,456,000 tonnes (44,503,000 tonnes measured and 96,953,000 tonnes indicated).

As disclosed in our previous reporting, we have several mining and exploration licences which might be affected by the Mining Prohibition Law (the "**MPL**"). Our mining operation in the Khushuut Coal Mine and exploration activities under our concessions were conducted as usual and had not been affected by the MPL during the Financial Year.

We have instructed our Mongolian legal advisers to conduct enquiry with The Mineral Resources Authority of Mongolia (the "**MRAM**") regarding the validity of our licences. We were informed that all our mining and exploration licences are valid and in effect and none of them is within the list of the MPL. However, we were informed that some of our licences have been overlapping with the watershed and forestry areas which may have the potential in future to be adopted by the Mongolian government pursuant to the MPL.

According to our Mongolian legal advisers, an overlapping area may be removed and the affected licence still be valid and not subject to revocation if after the co-ordinates change, the licence could still fulfill the requirements under the Minerals Law of Mongolia ("**Mineral Laws**").

Our Khushuut coal resources and operation mainly consist of six mining licences. Based on the location currently put forth by the Water Authority and Forest Authority, we only have two mining licences with slight overlapping areas with the water basin protected zones. If these overlapping areas are resumed by the Mongolia government under the MPL, based on our review and opinion by our independent technical adviser, will not have a material effect on our Khushuut resources and operation.

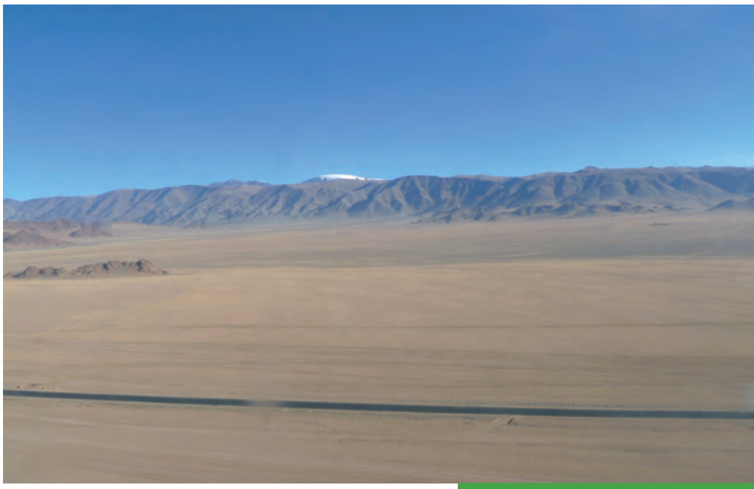
Please refer to the paragraph of Mining Prohibition Law for further details.

Khushuut Road

The Khushuut Road is approximately 311 km from our Khushuut Coal Mine stretching westward to the Yarant border (Mongolia side) and Takeshenken border (Xinjiang side). It is a two-lane asphalted road of 7 meters width and side shoulder of 1.5 meters each. It has 17 bridges constructed along the road and the loading capacity of the road is 85 tonnes per truck. The Khushuut Road is our main route for exporting coal products to the People's Republic of China (the "**PRC**"). We contracted the road foundation work in 2008 and road surface pavement work in April 2010.

The approval for the use of the Khushuut Road was granted by the Mongolian government in December 2011. We formally commenced transporting coal products from our mine site via the Khushuut Road to Xinjiang shortly after the approval.

Our operating subsidiary, MoEnCo LLC ("**MoEnCo**"), entered contracts with local road construction and maintenance companies for the winter period, through to March 2012. These contracts were for winter road clearance and maintenance. We are now in process of negotiation for revised contracts for summer maintenance and road upgrades.



The Khushuut Road commissioned in December 2011

Mine Production

The Khushuut Road was commissioned in December 2011. Before that the coal production on-site was kept at a minimum quantity level as large production before the road approval would cause the mined run-of-mine (ROM) coal to oxidize and not suitable for export to our customers.

Mine Infrastructure and Equipment

The customs bonded yard and weighbridge area at the mine site were completed during the Financial Year.

The customs bonded yard is now an official customs clearance zone with permanent customs and State Professional Inspection Agency (SPIA) officers signed off by the Mongolian government. The customs officials will be present at our mine site to seal trucks loaded with our coal products to facilitate the shipping process.

We will commence our laboratory upgrade shortly for our coal samples analysis to be taken on-site before shipping, and this will enhance the stability of our coal quality to our customers. The laboratory upgrade will additionally facilitate the analysis of increased quantities of samples which in turn allows for the projected phased increase in production and coal sales.

Coal Processing

Currently, our coking coal will undergo the screening process before selling to our customers until a comprehensive coal processing facility is in place.

Two sets of screening equipment are used to process the Khushuut ROM coal before it is shipped to our customers. The throughputs of this equipment range from 150 to 200 tonnes of ROM coal per hour. The screening process removes parting (non-coal) materials which are greater than 50 mm in size. Plans are to eventually increase the level of coal processing with a washing plant at the Khushuut mine site. When this happens all non-coal materials mined with the coal will be removed and transportation costs will be substantially lowered. Until then, the mine will continue using the existing screening process to remove as much of the non-coal materials and minimize the transportation costs.

As disclosed under the paragraph of Results Analysis, one of the major factors contributed to the significant impairment loss during the Financial Year was due to a change made to the Group's mine infrastructure plan. This related to the continued delay of obtaining a water permit resulting in delay in construction of a coal processing plant at the Khushuut mine site. To address this and in order to improve our coal processing power and quality of our coal, we have planned to build a coal washing plant in Xinjiang before a permanent washing plant is set up in the Khushuut mine site. The proposed washing plant will have an initial annual coal washing capacity of 1,500,000 tonnes. We are working with Shandong Energy Xinwen Mining Group Co., Ltd. ("**Xinwen Mining Group**") to assist us in this project. Xinwen Mining Group will provide one-stop assistance in this project from initial planning up to construction completion. Thereafter, Xinwen Mining Group will provide management services for the operation of the washing plant.

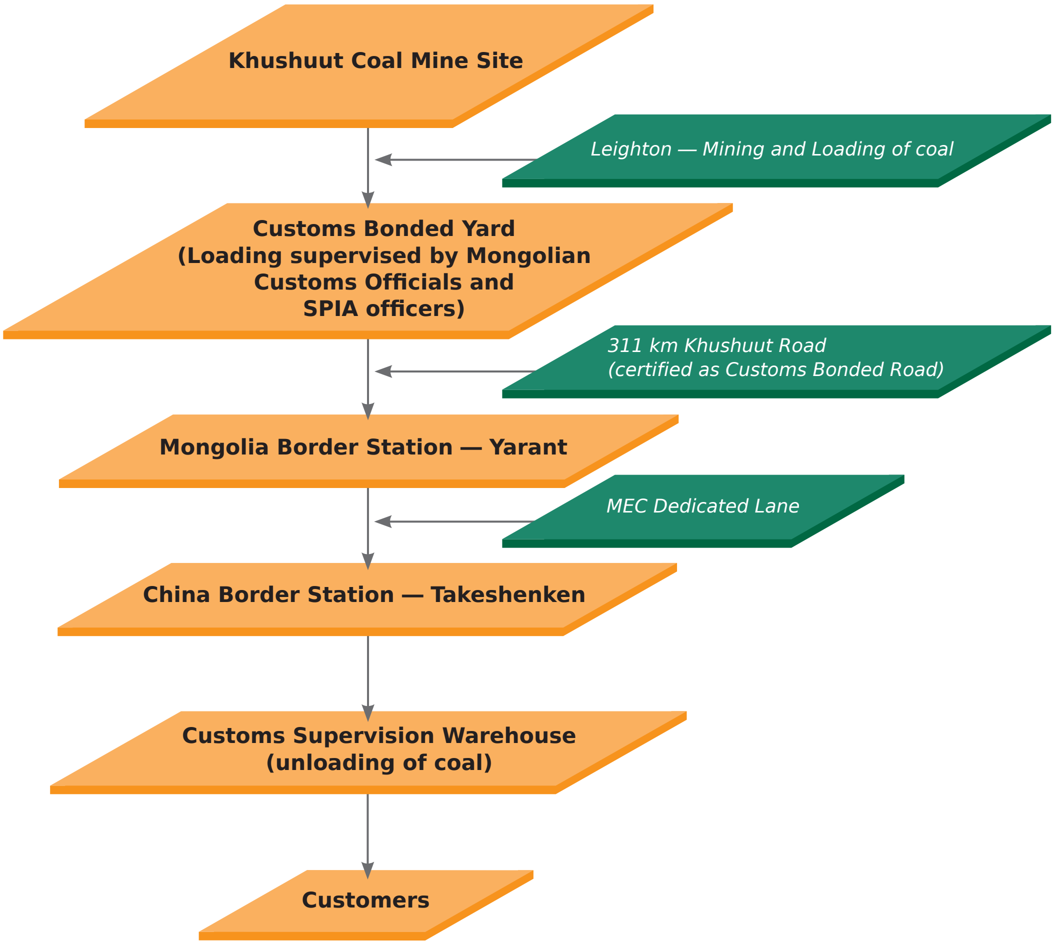
A suitable place for building the washing plant in Xinjiang has been identified. We are liaising with the Xinjiang local government for the permit of the land use right and a preliminary proposal has been submitted to the local government for consideration. As the set up of the Xinjiang washing plant may take time, to address our coal processing power in immediate term, we have just signed up with a PRC coal trading company having a washing plant in Xinjiang so that we can commence our washing process as soon as possible.

Apart from the above, we will continue to prove a suitable place with sufficient water source to the Mongolian government to set up our coal washing plant and preparation plant in the proximity to our mine site.

Transportation and Logistics

Xinjiang is our primary market for our coking coal products. As the Khushuut Road has been completed and commissioned, road transportation through trucks is the model of shipping our coal products out from our Khushuut Coal Mine to customers in Xinjiang.

The logistic flow of shipping coal out from our mine site is shown below:



We have engaged five transportation contractors to provide coal hauling services to us. These contractors together provide a trucking fleet of approximately 180 trucks for our coal hauling services. Based on our available information, the average loading per truck is around 60 tonnes of coal.

However, not all of these trucking companies provide exclusive services to us and the number of trucks available will fluctuate due to a variety of factors such as mechanical break down, repair and accidents, and the business of the contractors. In order to increase transportation capacity, improve reliability and reduce transportation costs for our operation, we entered into agreement in March 2012 to acquire 80 trucks and 129 trailers. We intend to invite our transportation contractors to provide overall management to our own trucks and to provide one-stop coal hauling services for our operation. We will continue to monitor the sufficiency of our trucking fleet from time to time to bring it in line with the expansion of our operation.

The trucking fleet ships our coal products to the Xinjiang Takeshenken border and unloads at the nearby Customs Supervision Warehouse. The customers pick up our coal at this location via their own trucks for further washing and use.

We have built a dedicated lane connecting the Mongolian Yarant border and the Xinjiang Takeshenken border which is for our exclusive use. This will ensure we have a smooth and speedy customs clearance which will otherwise be delayed by other border users. The borders work eight hours per day and five days per week. We will continue our effort to coordinate the government officials of both sides to expand the operational hours of the borders.

Customers and Sales

We have a long term coal supply contract with Bayi Steel. We did not actively look for customers because we were only in the trial production stage in the past year. With the commissioning of the Khushuut Road, we formally commenced commercial production and delivery of our products. We will take an active role to expand our customer base to coincide with our gradual ramp-up of coal production.

During the Financial Year, we shipped approximately 17,350 tonnes of coking coal to our customer.

The selling price of our coal during this initial period was expected to be unstable. This was partly due to our screening facility and coal selection process were at an early development stage which caused substantial amount of non-coal partings and ash mixed among the coal products, and this lowered the selling price through adjustment after the washing process. Further, we are selling processed raw coal products until a comprehensive coal processing facility is in place, and the actual pricing is negotiated with our customers based on various factors including recovery rate from the screened coal to clean coal, ash content, washing and transportation costs, etc. Therefore, it is one of our prime objectives to improve our coal processing capabilities and set up our washing plant as soon as possible to improve the quality and value of our coal products. We will also improve our on-site laboratory set up to better control the quality of our coal before shipping to our customers.

Support from the Local Governments for Our Project

On 27 October 2011, we entered into a co-operation agreement with Darvi Soum. The purpose of this agreement is to enhance co-operation between us and the local government and to provide successful implementation of our projects and investments planned by MoEnCo. In return, we are required to support their vocational training and education of unemployed people, to establish a fund for local support, to provide coal needs and job opportunities for the local people.

Also on 12 December 2011, we entered into a similar co-operation agreement with Tsetseg Soum.

Village Relocation Project and Community Issues

Village Relocation

As discussed in the interim report, there are certain villagers and herders living in the vicinity of our Khushuut mine site and this causes health and safety concerns regarding our operation. We have an agreement with the local government to help relocate these villagers to other locations away from our operational zone.

We submitted the resettlement action plan for the proposed Khushuut village relocation to Khovd aimag in December 2011. During the aimag civil representative meeting held in December 2011, a decision was made to relocate Khushuut village center to the territory of Tsetseg soum and 800 hectares of land was allocated for that purpose.

At the same time, we have requested Khovd aimag to set up a relocation action plan implementation working committee in order to solve compensation issues of the affected people such as relocation-related compensation, winter and spring animal shelters compensation in a comprehensive manner.

Community Issues

As part of our corporate responsibility, we take an active part in the local community development as part of our business involvement. During the Financial Year, we continued to supply free coal (coal not suitable for export purpose) from our mine to the local community to help the people overcome the long cold winter. We made donations to kindergartens in Khushuut village, Darvi and Tsetseg soums; supported the teachers financially to attend training programs and to visit schools; invested up to 150 million Mongolian Tugrik (approximately HK$0.9 million) for remodeling a culture center in Tsetseg soum.

We will continue to make reasonable donations and provide support to the sectors of education, health and agriculture for the purpose of supporting local citizens’ lives and jobs.

Exploration Activities

Licences

We had one exploration licence expired and two mining licences suspended during the Financial Year. The Company now has ten mining licences and ten exploration licences in western and northern Mongolia, including Khushuut, Gants Mod, Olon Bulag, Govi-Altai, Bayan-Ulgii and Khuvsgul that cover an area of approximately 335,000 hectares.

Licence 5309X

Exploration on this licence failed to find any mineralization that would justify turning all or a portion of the exploration licence into a mining licence. Consequently, this exploration licence was allowed to expire on 16 January 2012.

As this was not a licence under the Khushuut Coking Coal Project and no substantial value had been assigned to this licence, the expiration of this licence does not have any material impact on our asset value and operation.

Licences 11889A and 11890A

According to our analysis, these licence areas contain coal which is high in ash and is not of coking coal quality, thus, it is not an economically viable product for export.

These licences are not part of the Khushuut Coking Coal Project. Taking into account the quality of the coal found, location and potential market, these licences do not possess potential synergistic effect on our present coking coal operation. Since no substantial value has been assigned to them, there is no material impact on our asset value and operation.

Exploration

Exploration work conducted on the exploration licences during the Financial Year consisted of geological reconnaissance and surface mapping work and core drilling and core sample analysis.

Reconnaissance and mapping work was carried out on exploration licences 5309X, 7460X, 8976X, 11515X, 11628X, 11724X and 12315X. From this work several coal and metals “targets” were identified. These “targets” will be investigated further during the 2012 field season.

Three separate drilling programs were conducted during the 2011 field season. Two were on exploration licence 11719X and one was on exploration licence 12126X. One of the 11719X drilling programs targeted a coal prospect and the other targeted copper/gold prospect. The 12126X drilling program targeted a coal prospect. The results of all three drilling programs were disappointing that the holes drilled did not find the coal and/or the copper/gold mineralization as anticipated.

Planned Exploration Programs in 2012
Plans are to do some trenching and analytical work on the targets that were identified during the previous year's field reconnaissance and mapping work. Also plans are to drill 19 holes on exploration licence 7460X and the adjacent mining licence 2913A. The major drilling program is targeting coal resources.

Legal and Political Aspects

Mining Prohibition Law
On 16 July 2009, the Parliament of Mongolia enacted 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.

The government of Mongolia adopted Resolution No. 299 (the "**Resolution 299**") on 17 November 2010 which sets out the procedures to be used in granting compensation to holders of mineral licences affected by the MPL. The purpose of Resolution 299 is to remove any overlapping with prohibited areas and make any necessary changes to the coordinates of the licence area or revoke the licence if deemed necessary, and grant compensation to the licence holder.

Under Article 17.4 of the Minerals Law of Mongolia adopted on 8 July 2006 (the "**Minerals Law**"), the size of area granted by an exploration licence must not be less than 25 hectares but must not exceed 400,000 hectares. Under Article 24.4.1 of the Minerals Law, mining area shall have the shape of a polygon with borders that are straight lines, not less than 500 metres in length, oriented north-south and east-west. In this connection, if a mineral licence is compliant with the respective provisions of the Minerals Law following determination and removal of any overlapping areas with prohibited areas under the MPL and the making of relevant revisions to the coordinates to such mineral licence, then such mineral licence will remain valid less the overlapping area.

Article 3.1 of Resolution 299 provides that compensation shall be granted for the area which overlaps with the prohibited areas under the MPL.

On 8 June 2011, the Government of Mongolia adopted Resolution No. 174, which provides a list of "partially established boundaries" within which alluvial gold mining operations are prohibited under the MPL. Our Mongolian legal advisers confirmed that none of our licences are within the list and our licences are clear under the MPL. They do not aware of any other list that has been adopted by the government of Mongolia.

The MPL may potentially revoke those licence areas which are currently set out as water basins, water basin protection zone and forested areas. Our Mongolian legal advisers advised us that some of our licences have been overlapping with the forest and head water areas, please refer to our licence list in this Report. Although none of our licences is within the official list under the MPL, the Mongolian government may issue definitive coordinates for such water basins and forested areas, and should the Mongolian government do so, further evaluation will be necessary.

Foreign Investment Regulation Law

According to our legal advisers, the Mongolian government has passed the Regulation of Foreign Investment in Business Entities of Strategic Importance ("**Foreign Investment Regulation Law**"). The purpose of this law is to regulate relations concerning investment to business entities operating in sectors of strategic importance by foreign investors.

The Foreign Investment Regulation Law identifies three sectors as being of strategic importance to the economy, human development and national security of Mongolia (Foreign Investment Regulation Law, Article 5.1). These sectors include minerals; bank and finances; and media and communication.

In simple terms, any transactions by a foreign investor to acquire one-third or more of the shares of a business entity ("**Strategic Person**") operating in a strategic sector, or any agreement to control the management or operation of a Strategic Person, the prior approval of the Mongolian government is needed (Foreign Investment Regulation Law, Article 6.1).

In the event the foreign investor's equity interest exceeds 49% of the share capital of a Strategic Person and such investment exceeds 100 billion Mongolian Tugrik (approximately US$75 million), the Parliament of Mongolia will decide whether to grant permission.

The Foreign Investment Regulation Law also applies to offshore transactions that ultimately relate to a Strategic Person. It is not clear as to how this requirement will be implemented in the case of publicly traded companies or companies with complex upstream structures.

Our legal advisers are of the view that the Foreign Investment Regulation Law will not be applied retrospectively. However, our mining and exploration activities are in the minerals sector and any future transactions may be affected by the Foreign Regulation Law.

Political Development

As discussed in the interim report, the parliamentary election of Mongolia would take place in the middle of 2012.

The Parliament of Mongolia is the highest organ of State Power and the legislative power is vested solely in the Parliament. As a supreme government organ, the Parliament is empowered to enact and amend laws, ratify international agreements, and declare a state emergency.

The Mongolian Parliament used to adopt a policy to welcome international investors to invest and develop its mining sector, and have favourable policies on mining developers. However, there were certain changes and restrictions recently to control or limit investment in this sector, as seen from the MPL and the Foreign Investment Regulation Law. We hope the future investment climate is clearer after the election.

RESULTS ANALYSIS

Revenue

The Group commenced commercial production near the close of this Financial Year thus a low level of sales activities was recorded. The revenue of HK$6.2 million (2011: Nil) represented by a sales volume of approximately 17,350 tonnes of coal shipped to our customers at an average selling price of HK$357 per tonne.

Impairment Loss Recognised on Khushuut Mine Related Assets ("Mine Assets")

A non-cash impairment charge of HK$4.6 billion was made in this Financial Year in respect of Mine Assets. This impairment did not impact cash flow during the year. The impairment related to (i) mining structures, mining properties and construction in progress grouped under property, plant and equipment; (ii) exclusive right of use of paved road under intangible assets; and (iii) development in progress.

The impairment charge was based on an impairment analysis performed by an independent qualified valuer (the "**Independent Valuer**"). The Independent Valuer adopted a value in use model, that is, a discounted cash flow analysis to assess the recoverable amount of the Mine Assets. The recoverable amount is equivalent to the present values of a series of future cash flows expected to be generating over the mine life of the Khushuut mine operation given at a specified discounted rate. The determination of future cash flows is dependent on a number of factors, including but not limited to, future coal prices, the amount of measured and indicated coal resources in Khushuut mine, the cost of bringing the project into production, production schedule, scale of production, production costs, capital expenditures and etc. The value in use model will also take into account factors such as legal and environmental regulations in Mongolia. The independent appraisal on the Mine Assets concluded that the recoverable amount of the Mine Assets was significantly lower than its carrying value. The major factor contributed to the significant impairment charge was due to a change made to the Group's mine infrastructure plan. The continued delays of obtaining water permit for the coal processing plant caused a serious delay in construction of a coal processing plant at the Khushuut mine site. The Company has planned some interim measures to partially counteract the negative impact caused by such delay. In particular, a coal washing plant will be built in Xinjiang, the Group's target market, but with a smaller washing capacity than the original plan in Khushuut. This change has a significant impact on the cash inflow to be generated from the Khushuut mine operation. Thus, in comparing Mine Asset's recoverable amount to its carrying value, a HK$4.6 billion impairment loss was measured and was allocated to various relevant balance sheet items.

The Company believes that the estimates/assumptions applied in the assessment of recoverable amount by the Independent Valuer are reasonable. However, such estimates/assumptions are subject to significant uncertainties and judgments. The Company has made its best estimate of all relevant factors to be included in the value in use model based on current conditions. However, it is possible that the underlying estimates/assumptions can be changed significantly and further impairment charges/reversal of charges may be required in future periods.

Staff Costs

Total staff costs (excluding non-cash equity-settled share-based payments) was HK$63.1 million (2011: HK$73.6 million). The dropped was resulting from the streamlining of management functions in Hong Kong head office.

Other Gains and Losses

Fair value gain on derivative component amounting HK$432.0 million (2011: HK$71.8 million) was recorded. It was mainly arising from the new HK$2 billion convertible note issued during the year. The convertible note contains two components, a liability component and a derivative component. The derivative component was initially recorded at fair value at its issue date and re-measured at the end of the year. The resulting change in fair values was then recognized through the consolidated income statement.

Other Expenses

Other expenses increased sharply to HK$205.1 million (2011: HK$107.2 million). The following main items accounted for the increase:

(a) Exploration costs of HK$18.0 million incurred during the year not qualified for capitalization as exploration and evaluation assets (2011: Nil);

(b) Write-down of inventories to net realizable value of HK$75.0 million (2011: Nil). There are two key factors contributing to the write-down of inventories (i) the Khushuut mine operation was still at its infancy stage of production therefore the scale of production did not ramp up to its optimum level; and (ii) unprocessed coal was sold during the year to our customers at a lower price as a matter of fact that our customers would have to wash and process the coking coal themselves. These combined factors accounted for the requirement to write-down the carrying amount of the coal inventory to its net realizable value; and

(c) Cost of sales of HK$20.5 million (2011: Nil). The average cost of sales per tonne was HK$1,182.

Finance Costs

Finance costs increased to HK$247.1 million (2011: HK$149.5 million). The reason for such increase was due to the reduction in interest capitalized to development in progress. Development in progress refers to construction in progress relating to an exclusive right of use of paved road. The construction of the road from the Khushuut mine to Yarant border was completed during the year.

FINANCIAL REVIEW

1. Liquidity and Financial Resources

During the year, the Group's capital expenditure and working capital were mainly funded by three sources: (1) short term loans granted by Mr. Lo, chairman of the Company; (2) a net placing proceeds of HK$117.5 million from placement of 150,000,000 shares at a subscription price of HK$0.8 per share; and (3) a refund of HK$200 million from an associated company in respect of an aborted investment project.

A zero coupon convertible note in the principal amount of HK$2 billion issued to Chow Tai Fook Nominee Limited was matured during the year. On 15 June 2011, the Company issued a 3-year 3% coupon convertible note in the principal amount of HK$2 billion (the "**New CTF Note**") to fully redeem the zero coupon convertible note. The New CTF Note 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$2 convertible note at the holder's option at any time between the issue date and maturity date.

The borrowings of the Group as at 31 March 2012 comprised convertible notes and advances from a Director amounting to HK$2,998.2 million (2011: HK$2,740.6 million). The effective interest rates of these borrowings were in the range from 5% to 16.21%. Of the total borrowings, 16.4 per cent was repayable within 12 months and the rest was falling in the 1 to 3 years range.

At year end date, the cash and bank balances were HK$85.0 million (2011: HK$10.2 million).

The liquidity ratio as at 31 March 2012 was 0.26 (2011: 0.05).

As at 31 March 2012, the Group's current liabilities exceeded its current assets by approximately HK$509.8 million. The management of the Group is confident that the Group will be capable to meet in full its financial obligations as they fall due in foreseeable future. Mr. Lo, the major shareholder and chairman of the Company, has provided sufficient facilities to meet the Group's short term funding needs. Besides, the commencement of Khushuut mine operation can bring in new revenue to the Group.

2. Investment in Listed Securities

As at 31 March 2012, the Group's held-for-trading investments comprised of equity securities listed in Hong Kong with a fair value of HK$27.1 million (2011: HK$37.6 million).

3. Charge on Group's Assets

There was no charge on the Group's assets as at 31 March 2012 (2011: Nil).

4. Gearing Ratio

As at 31 March 2012, the gearing ratio of the Group was 0.26 (2011: 0.17) which was calculated based on the Group's total borrowings to total assets. The increase was due to the shrinkage of total assets during the year because of the impairment loss recognized on Khushuut mine related assets.

5. Foreign Exchange

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

6. Contingent Liabilities

As at 31 March 2012, the Group did not have significant contingent liabilities (2011: Nil).

RISK FACTORS FACING US

The Group's business may from time to time face with certain risk factors; some of them may not be anticipated by or known to the Group. Possible risk factors which may be facing 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 and demand of 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 for 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, often through years, and this includes going through the process of reconnaissance, exploration, deposit analysis and mine planning. There is no guarantee that a planned 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 and 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.

In the course of development of a project, the Group may change its planning from time to time due to some unforeseeable circumstances. When this happens, the outcome, prospect or financial position may be significantly affected.

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. Some of the relevant laws and regulations in Mongolia are as follow:

Minerals Law

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 happen 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.

Mining Prohibition Law

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.

Since the passing of the MPL on 16 July 2009, our mining and exploration activities have been conducted as usual and not affected by the MPL. Based on the best knowledge of the management, none of our existing licences have been revoked under the MPL.

The government of Mongolia adopted Resolution No. 299 (the "**Resolution 299**") on 17 November 2010 which sets out the procedures to be used in granting compensation to holders of mineral licences affected by the MPL. The purpose of the Resolution 299 is to remove any overlapping with prohibited areas and make any necessary changes to the coordinates of the licence area or revoke the licence if deemed necessary, and grant compensation to the licence holder.

Under Article 17.4 of the Minerals Law of Mongolia, the size of area granted by an exploration licence must not be less than 25 hectares but must not exceed 400,000 hectares. Under Article 24.4.1 of the Minerals Law, mining area shall have the shape of a polygon with borders that are straight lines, not less than 500 metres in length, oriented north-south and east-west. In this connection, if a mineral licence is compliant with the respective provisions of the Minerals Law following determination and removal of any overlapping areas with prohibited areas under the MPL and the making of relevant revisions to the coordinates to such mineral licence, then such mineral licence will remain valid less the overlapping area.

Article 3.1 of Resolution 299 provides that compensation shall be granted for the area which overlaps the prohibited areas under the MPL. Our Mongolian legal advisers advised us that some of our licences have been in overlapping with the forest and head water areas, please refer to our licence list in this Report.

Our Mongolian legal advisers confirmed that none of our licences are within the list and they are not aware of any other list that has been adopted by the government of Mongolia. However, there remains potential for other areas within Mongolia to be later designated as prohibited areas by the government of Mongolia in accordance with the MPL.

Foreign Investment Law

According to our legal advisers, the Mongolian government has passed the Regulation of Foreign Investment in Business Entities of Strategic Importance (“**Foreign Investment Law**”). The purpose of this law is to regulate relations concerning investment to business entities operating in sectors of strategic importance by foreign investors.

Any transactions by a foreign investor to acquire one-third or more of the shares of a business entity (“**Strategic Person**”) operating in a strategic sector, or any agreement to control the management or operation of a Strategic Person, the prior approval of the Mongolian government (Foreign Investment Regulation Law, Article 6.1).

In the event the foreign investor’s equity interest exceeds 49% of the share capital of a Strategic Person and such investment exceeds 100 billion Mongolian Tugrik (approximately US$75 million), the Parliament of Mongolia will decide whether to grant permission.

The Foreign Investment Law also applies to offshore transactions that ultimately relate to a Strategic Person. It is not clear how this requirement will be implemented in the case of publicly traded companies or companies with complex upstream structures.

The extent and how the law will operate in the future transactions are waited to be seen. However, it will restrict foreign investment in the minerals sector of Mongolia to a certain extent.

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 the 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 materially adverse effect on our business, operations, financial condition and results of operations.

Operational risks

Leighton LLC ("**Leighton**") is our mine contractor responsible for the mining operations of our Khushuut Coking Coal Project. If there is any unforeseeable event which renders Leighton 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.

Political stability

The Parliament of Mongolia is the highest organ of State Power and the legislative power is vested solely in the Parliament. As a supreme government organ, the Parliament is empowered to enact and amend laws, ratify international agreements, and declare a state emergency.

Specifically, the Parliament may consider on its initiative any issue pertaining to domestic and foreign policies of the State, and retains within its exclusive power, including but not limited to:

(i) enact laws, make amendments to them;

(ii) define the State financial, credit, tax and monetary policies;

(iii) lay down guidelines for the country's economic and social development;

(iv) approve the Government's program of action, the state budget and the report on its execution; and

(v) supervise the implementation of laws and other decisions of the Parliament.

The Parliament meets semi-annually. Parliament members elect a chairman and vice chairman who each serves a 4-year term. Parliament members are elected by district for a 4-year term.

The Mongolian Parliament used to adopt a policy to welcome international investors invest and develop its mining sector, and have favourable policies on mining developers. However, there are certain changes and restrictions recently to control or limit investment in this sector. There is no guarantee that the Parliament will not further tighten its policies or adopt a more stringent or radical control on the mining sector when a more conservative political party or parties dominate the seats in the Parliament under the recent election.

OUTLOOK

During the Financial Year, we had succeeded in obtaining the approval for the use of the Khushuut Road. This marks a new era for us in our development.

Although we have commenced our commercial production, we still have a list of challenges to face in bringing us to a satisfactory point. As anticipated by us, the scale of commercial coal production was at a lower level at an initial stage, and we are aiming to increase gradually in the medium run. During the last three months of the Financial Year, after we had obtained the approval from the Mongolian government to use the Khushuut Road, we had delivered only a small quantity of coking coal to our customer. We have certain start up issues of our commercial operation. These include our screening facility and coal selection process were at an early development stage which caused substantial amount of non-coal partings and ash mixed among the coal products, as well as the technique in matching the right kind of coal quality demanded from our customer. Therefore, it is our prime objective to improve in this process. One of the solutions is to have a washing plant in place to process our raw coking coal. We are working with Xinwen Mining Group to assist us in the washing plant project in Xinjiang, the PRC. As this plant may take some time from planning to up and running, it will not be put to service in one or two years' time. To address this issue, we have signed up with a PRC coal trading company having a washing plant in Xinjiang to process our raw coking coal. This company has also agreed to act as our coal sales agent to assist us in selling our coal products directly after washing in the Xinjiang region.

Therefore, for our Khushuut operation, we will work towards increasing coal quality and stabilising the sales price by continuing to explore and invest in coal processing technology and to enhance mine engineering work. We are also in discussion with our contract miner, Leighton, regarding our scheduled production in the second half of this year. We hope to ramp up our production gradually shortly.

We will also continue to improve our operation efficiency by continuing to work with the Mongolian and Chinese government authorities to increase the border capacities and operating efficiency of the trucking pool.

From a marketing perspective, we had only one PRC customer during the Financial Year. As explained, the first and foremost effort during the first half of the Financial Year was to ensure the completion of the road works of the Khushuut Road and to get the usage approved, we had not taken an active part in expanding our customer base. In the coming financial year, we will work towards enlarging our customer base and market coverage through co-operating with some coal trading companies.

In terms of exploration, we will continue to explore new resources within Mongolia mainly through working on our existing exploration licences.

We have noted recently the Mongolian government has tightened up its control in the newly passed Foreign Investment Regulation Law. Our Mongolian legal advisers advised that the law will aim to control foreign investments on the strategic sector of Mongolia including the minerals sector. We do not know whether the approval requirement under this law is just a procedural process or the Mongolian government will apply it stringently. It is a newly pronounced piece of law and yet how it is operated is waited to be seen. Our Mongolian legal advisers advised us that the Foreign Investment Regulation Law will not apply retrospectively. Nevertheless, it may impact us on our future expansion in acquiring prospective resources in Mongolia as we expect more lead time is required to obtain approval from the Mongolian government for new projects.

Seeing the trend and the growing importance of the Xinjiang market, we are identifying potential resources and development opportunities in the Xinjiang region apart from our current Khushuut operation. We have developed a technical China team to help us in marketing our coal products, identifying our potential strategic partners and considering potential resources opportunities.

We are actively working with various working partners on the growth of our business. Our short to medium term targets are to increase our coal quality and operating efficiency; to decrease and control our costs; and to expand the market.

This year is the first stage to build up the ground work for the Khushuut commercial operation and we have taken the first step to penetrate and market our products into the PRC market. Our unique coking coal quality has the demand from the Xinjiang market. We believe with a continuous focused effort to improve our production process, the demand for our products will likely increase significantly. If we stay on track with all our key initiatives to make our improvement, the Khushuut mine project will soon be a positive cashflow contributor to the Company.

We will continue to look for other resources investment opportunities and strategic partners in the industry for any cooperation, and to bring value and opportunities to our 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 during the Financial Year is as follows:

Licence (licence no.)	**Location** (resources)	**Mine area (approximate)** (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) ▲▲	Approximate 141 million tonnes of in-place resources according to JORC standards are reported. Commenced commercial production in 2012. MEC will continue to explore resources in these areas for further resources development potential.
	(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 (approximate)** (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 this area 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)	Expired on 16 January 2012.
Sub-total Hectares		**263,008**			

Licence (licence no.)	**Location** (resources)	**Mine area (approximate)** (hectare)△	**Licence date**	**Licence valid period**#	**Development status**
	(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**			

△ *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*

* *under suspension*

** *expired on 16 January 2012*

⌖ *licence has area overlapping with forest areas*

✧ *licence is within the boundaries of headwaters of rivers and lakes and water basin zone*

◈ *licence has area overlapping with water basin protection zones*

Corporate Social Responsibility

Young painters in the "Our Future and Road" competition in Uyench soum, Khovd Province.

Mongolia Energy Corporation has always committed itself as a good corporate citizen and is fully conscious of its corporate social responsibility alongside its developments in Mongolia. We will continue our efforts in the growth and sustainable development of Mongolia, in particular the Khovd province, of which we have set up our core operation.

During the Financial Year, MEC had continued to contribute to the continuous education sponsorships to students to attain higher level of tertiary education as well as supporting younger children's education opportunities. With the support of the Khovd local government and the various local soums, MEC sponsored costumes for the annual celebration activities in the area, bringing the community closer and a better understanding of our operations.

The workforce in our Khushuut operation has created jobs and training opportunities for the local and vicinity villagers. These trainings and work stimulation programs equipped the villagers with technical skills to help in the development of the coal mine and a stable working environment to support their families. These trainings have enriched the local workforce's exposure to high technical level of equipment, procedures and operational techniques for the development of Mongolia's future.

With the Khushuut Road in service, local villagers in the Khovd province are given the opportunity to use the asphalted road for their transportation of food, materials and necessities. MEC has also contributed electrical equipments to Govi-Altai soum hospital, aiming to enhance the local medical facilities for the

Khushuut Road Opening Ceremony with officials and guests.

Young contortionists from Tsetseg soum performing in the Khushuut Road Opening Ceremony.

villagers. In a vast land, travelling, medical supplies and equipment are very important in sustaining a harmonious and healthy society. Furthermore, for the 5th consecutive year, MEC has donated thermal coal to local villagers during winter to relieve the local villagers' hardship in the frosted winter.

In addition, MEC has made contribution to the International Women's Association of Mongolia. We have also sponsored local and international conferences and meetings to promote the awareness of pollution through reporting and data analysis to the Local and Central Government of Mongolia.

MEC firmly believes that we develop the resources we control, but more importantly, we conduct all our activities in an environmentally responsible manner. In the Hong Kong Head Office, we have set up Green Office Guidelines for staff to follow. These guidelines include Reuse, Reduce and Recycle. As a responsible corporate body, it is important that we are aware of the significance of waste control and recycling.

In the years to come, MEC will continue our efforts we can, in all relevant aspects, in helping the development of the local area. We will play a significant lead in bringing a harmonious and prosperous community alongside the development of MEC's concessions.

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.

During the year ended 31 March 2012, the Company had applied the principles of code provisions of the Code on Corporate Governance Practices contained in former Appendix 14 (the "**Former CG Code**") of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and had complied with the code provisions of the Former CG Code except the deviations as mentioned below:

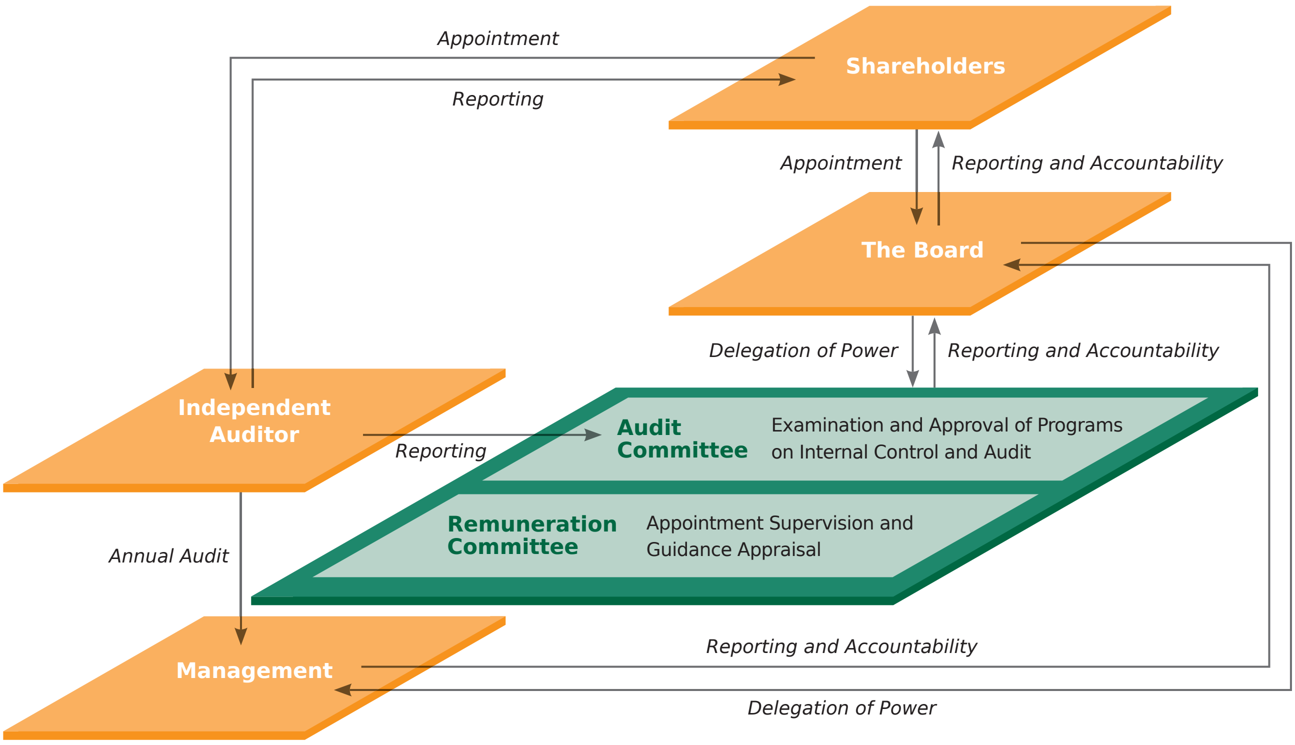
i. Under the code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election.

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

ii. The code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting ("**AGM**").

   The Chairman did not attend the 2011 AGM due to another business engagement. An executive Director chaired the 2011 AGM and answered questions from the Shareholders. The AGM 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 2011 AGM. Other than the AGM, the Shareholders may also communicate with the Company through the contact information listed on the Company's website.

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.

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 has 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. Company Secretary and Legal and Compliance Department will send reminders prior to the commencement of such period to all Directors and relevant employees respectively.

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. Company Secretary and Legal and Compliance Department will send reminders prior to the commencement of such period to all Directors and relevant employees respectively.

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 are of a priority to 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 of 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 38 to 39. 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 are:

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

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 2012, 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 of the Company for the administration and management functions of the Group. The Directors have separate and independent access to members of the senior management to make enquiries or obtain necessary information. The representative of the Board will meet the management from time to time to discuss operating issues of the Group.

All Non-executive Directors, including Independent Non-executive Directors, 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 2012, 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 of the Company;

vi. reviewed and approved the connected 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. 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 2012 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 was responsible for implementing the strategic business plans in relation to the energy and related resources business of the Group. Mr. Schaeffer retired from the office of Chief Executive Officer effective on 1 June 2012 and his role has been assumed by Managing Director, Ms. Yvette Ong.

(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 51 to 52.

(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 continued 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. 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. The 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 one general meeting which was the AGM. In the 2011 AGM, the Directors and the independent auditor of the Company had attended to answer the 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)
Executive Directors	
Mr. Lo Lin Shing, Simon *(Chairman)*	4(4)
Ms. Yvette Ong *(Managing Director)*	4(4)
Mr. Liu Zhuo Wei	1(4)
Non-executive Director	
Mr. To Hin Tsun, Gerald	3(4)
Independent Non-executive Directors	
Mr. Peter Pun *OBE, JP*	4(4)
Mr. Tsui Hing Chuen, William *JP*	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 advices and comments thereon to the Board;

ii. discussing with the independent auditor of the Company 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 the independent auditor and its 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 below:

Committee members	**Attendance (Number of meetings)**
Mr. Lau Wai Piu	2(2)
Mr. Peter Pun *OBE, JP*	2(2)
Mr. Tsui Hing Chuen, William *JP*	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 oversaw the financial reporting procedures and ensured the financial reporting and other accounting-related issues were 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/her associates is involved in deciding his/her 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 below:

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

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu was reappointed as independent auditor of the Group (the "**Independent Auditor**") at the 2011 AGM. It is the Auditor's responsibility to form an independent opinion, based on its 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 about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 51 to 52.

During the year under review, the professional fee paid/payable to the Independent Auditor, Deloitte Touche Tohmatsu, is set out as below:

	HK$'000
Audit services	2,700
Non-audit services	672
	3,372

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 and Senior Management

Lo Lin Shing, Simon *Yvette Ong* *Liu Zhuo Wei*

MR. LO LIN SHING, SIMON

Chairman and Executive Director

Mr. Lo, aged 56, 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.

MS. YVETTE ONG

Managing Director and Executive Director

Ms. Ong, aged 47, has been a Director since September 1999 and was appointed as Managing Director on 1 June 2012. She has over 20 years of managerial experience in the Asia-Pacific region. 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.

MR. LIU ZHUO WEI

Executive Director

Mr. Liu, aged 59, 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.

To Hin Tsun, Gerald

Peter Pun

Tsui Hing Chuen, William

Lau Wai Piu

MR. TO HIN TSUN, GERALD

Non-executive Director

Mr. To, aged 63, 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 United Kingdom, 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 81, 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 61, 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 and Vision Values Holdings Limited respectively, all of which are listed on the Stock Exchange.

MR. LAU WAI PIU

Independent Non-executive Director

Mr. Lau, aged 48, 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 and Vision Values Holdings Limited respectively, all of which are listed on the Stock Exchange.

Directors' Report

The Directors present their report together with the audited financial statements of the Company and its subsidiaries (together the "**Group**") for the year ended 31 March 2012.

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 energy and metal resources exploration, coal operations and other related operations. The activities of the principal subsidiaries are set out in Note 39 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group for the year ended 31 March 2012 is set out in Note 8 to the financial statements.

RESULTS

The results of the Group for the year ended 31 March 2012 are set out in the Consolidated Income Statement on page 53.

No interim dividend was declared (2011: Nil) and the Directors do not recommend the payment of a final dividend for the year ended 31 March 2012 (2011: Nil).

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and the share options of the Company during the year are set out in Notes 32 and 33 to the financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results for the year and of the assets and liabilities of the Group as at 31 March 2012 and for the last four financial years are set out on page 119.

RESERVES

Movements in reserves of the Group and the Company during the year are set out on page 57 and in Note 37 to the financial statements respectively.

DONATIONS

For the year ended 31 March 2012, the Group made donations for charitable and other donations to a total amount of HK$6,502,000.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in Note 15 to the financial statements.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the principal subsidiaries and associated companies of the Group as at 31 March 2012 are set out in Notes 39 and 20 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 largest supplier	50%
Five largest suppliers in aggregate	79%

Sales

The largest customer	99%
Five largest customers in aggregate	100%

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)*
Ms. Yvette Ong *(Managing Director)*
Mr. Liu Zhuo Wei

Non-executive Director

Mr. To Hin Tsun, Gerald

Independent Non-executive Directors

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

In accordance with Bye-law 87 of the Bye-laws of the Company, Mr. To Hin Tsun, Gerald, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu 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 annual general meeting of the Company in accordance with the provisions of the Bye-laws of the Company.

Biographical details of the Directors and Senior Management of the Group are set out on pages 38 to 39.

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 28 to 37.

DIRECTORS' INTERESTS

As at 31 March 2012, 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 owner/ Interest of spouse	1,212,788,301 *(Note)*	17.950%
Ms. Yvette Ong	Beneficial owner	1,090,000	0.016%
Mr. To Hin Tsun, Gerald	Beneficial owner	5,400,000	0.080%
Mr. Tsui Hing Chuen, William	Beneficial owner	500,000	0.007%
Mr. Lau Wai Piu	Beneficial owner	201,200	0.003%

*Note: Among the 1,212,788,301 shares, 4,960,000 shares represent interest of Mr. Lo on an individual basis; while 1,206,078,301 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	87,000,000 *(Note)*	1.288%
Ms. Yvette Ong	Personal	5,500,000	0.081%
Mr. To Hin Tsun, Gerald	Personal	1,000,000	0.015%
Mr. Peter Pun	Personal	1,000,000	0.015%
Mr. Tsui Hing Chuen, William	Personal	1,000,000	0.015%
Mr. Lau Wai Piu	Personal	1,000,000	0.015%

Note: Among the 87,000,000 shares, 75,000,000 shares represent interest of Golden Infinity. The balancing of 12,000,000 shares represents interest of Mr. Lo on an individual basis.

Save as disclosed above and the section headed "SHARE OPTION SCHEMES", as at 31 March 2012, 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 2012, 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
Mrs. Lo	Beneficial owner/Interest of spouse	1,299,788,301 (Note 1)	19.237%
Golden Infinity	Corporate	1,281,078,301	18.961%
Dr. Cheng Kar Shun	Interest of a controlled corporation/ Interest of spouse	394,670,000 (Note 2)	5.841%
Ms. Ip Mei Hing	Interest of a controlled corporation/ Interest of spouse	394,670,000 (Note 2)	5.841%
Dragon Noble Group Limited ("**Dragon**")	Corporate	315,570,000	4.671%
Dato' Dr. Cheng Yu Tung	Beneficial owner/Interest of a controlled corporation	1,225,000,000 (Note 3)	18.131%
Chow Tai Fook Nominee Limited ("**CTF**")	Corporate	1,220,000,000 (Note 3)	18.057%

Notes:

1. *Mrs. Lo is the spouse of Mr. Lo and accordingly, she is deemed to be interested in 1,299,788,301 shares under the SFO.*

2. *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 315,570,000 shares held by Dragon and 79,100,000 shares are owned by Ms. Ip Mei Hing, the spouse of Dr. Cheng Kar Shun.*

3. *Dato' Dr. Cheng Yu Tung is in control of CTF. By virtue of the SFO, he is deemed to be interested in 1,220,000,000 shares held by CTF. 1,220,000,000 shares held by CTF represent 220,000,000 shares and 1,000,000,000 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 2012.

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", the Company and its subsidiaries have no contracts of significance 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 or 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 may be issued under options to be granted is 190,461,906 which represent approximately 2.82% of the issued share capital of the Company as at 31 March 2012.

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 1 April 2011	Granted during the year	Lapsed during the year	Exercised during the year	As at 31 March 2012
Mr. Lo	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	6,000,000	—	—	—	6,000,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	—	6,000,000 (Note 2)	—	—	6,000,000
Ms. Yvette Ong	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	—	—	—	500,000
	01-09-2011	0.810	01-09-2011 to 31-08-2014	N/A	—	5,000,000 (Note 1)	—	—	5,000,000
Mr. To Hin Tsun, Gerald	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	—	—	—	500,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	—	500,000 (Note 2)	—	—	500,000
Mr. Peter Pun	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	—	—	—	500,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	—	500,000 (Note 2)	—	—	500,000
Mr. Tsui Hing Chuen, William	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	—	—	—	500,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	—	500,000 (Note 2)	—	—	500,000
Mr. Lau Wai Piu	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	—	—	—	500,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	—	500,000 (Note 2)	—	—	500,000
Sub-total					8,500,000	13,000,000	—	—	21,500,000

(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 1 April 2011	Granted during the year	Lapsed during the year	Exercised during the year	As at 31 March 2012
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	—	—
	02-02-2009	2.1340	02-02-2009 to 01-02-2012	N/A	2,250,000	—	2,250,000	—	—
	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	—	—	—	3,300,000
	29-02-2012	0.8100	29-02-2012 to 28-02-2017	N/A	—	42,500,000 (Note 2)	—	—	42,500,000
TOTAL					**18,550,670**	**55,500,000**	**6,750,670**	**—**	**67,300,000**

Notes:

1. *On 1 September 2011, 5,000,000 share options granted to Ms. Yvette Ong 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$0.7280. The closing price of the Company's shares on 31 August 2011 (the trading day immediately before the grant of the share options) was HK$0.8400.*

2. *On 29 February 2012, 50,500,000 share options 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$0.8100. The closing price of the Company's shares on 28 February 2012 (the trading day immediately before the grant of the share options) was HK$0.8100.*

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following connected transaction is required to disclose in the annual report of the Company:

Continuing Connected Transaction

Financial Assistance provided by Mr. Lo

Mr. Lo has provided a standby revolving facility of up to HK$850 million (the "**Facility**") to the Company for its general working capital. The provision of the Facility constituted an exempt connected transaction under 14A.65 of the Listing Rules.

As at 31 March 2012, a total of HK$461.3 million was drawn by the Company.

Agreed upon procedures performed by the Auditor of the Company

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the Independent Auditor to perform certain agreed upon procedures in respect of the above continuing connected transaction of the Group and the Independent 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 2012:

(i) have received the approval of the Board; and

(ii) have been entered in accordance with the terms of the agreement governing the transaction.

Confirmation of Independent Non-executive Directors

Pursuant to Rule 14A.37 of the Listing Rules, the Company's Independent Non-executive Directors had reviewed the above connected transaction and the Independent Auditor's letter on continuing connected transaction and have confirmed that the transaction had 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 transaction that was fair and reasonable and in the interests of the Shareholders as a whole.

A copy of the abovesaid Independent 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 30 and 38(b) 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 Independent Auditor.

The audited financial statements for the year ended 31 March 2012 had been reviewed by the Audit Committee.

HUMAN RESOURCES

As at 31 March 2012, excluding site and construction workers directly employed by our contractors, the Group employed 218 full time employees in Hong Kong, Mongolia and Mainland China. 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 a periodic basis. Apart from retirement scheme, year-end bonus and share options are awarded to the employees according to performance of the Group, 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, 29 June 2012

Independent Auditor's Report

Deloitte.
德勤

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 53 to 118, which comprise the consolidated statement of financial position as at 31 March 2012, and 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 that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 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 2012, 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 Notes 15 and 19(b) to the consolidated financial statements. The Group owns a number of mining concessions included in mineral properties of approximately HK$9,092 million in Western Mongolia for coal mining, four of which the Mineral Resources Authority of Mongolia have notified the Group are within the area designated on a preliminary basis as land where mineral exploration and mining are prohibited under the Mining Prohibition Law (the "**MPL**") as well as an exploration concession of approximately HK$286 million in Western Mongolia for iron ore. According to the MPL, the affected licence holders, including the Group, are to be compensated but the details of the compensation are not currently available. If any of these 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 might incur a significant impairment loss on the related mineral properties or exploration and evaluation assets. The ultimate outcome of this matter cannot presently be determined. The management concluded that, other than the impairment loss recognised during the year due to a change of the business plan as set out in Note 3 to the consolidated financial statements, no impairment that result from the MPL is required to be recognised 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 2012, the Group's current liabilities exceeded its current assets by approximately HK$509.8 million. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from the substantial shareholder and chairman of the Company. If the finance is not available, the Group would be unable to meet its obligations as and when they fall due. This condition along with other matters set forth in Note 1 to the consolidated financial statements indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 June 2012

Consolidated Income Statement

For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Revenue	8	**6,215**	—
Interest income		**2,303**	2,655
Staff costs	11	**(85,664)**	(96,995)
Amortisation		**(3,873)**	(640)
Depreciation		**(17,643)**	(27,877)
Other gains and losses	9	**325,536**	78,270
Other expenses		**(205,138)**	(107,242)
Impairment loss on property, plant and equipment	3, 15	**(4,018,605)**	—
Impairment loss on intangible assets	3, 17	**(562,835)**	—
Impairment loss on development in progress	3, 18	**(18,560)**	—
Impairment loss on available-for-sale financial asset	21	**(6,797)**	(4,785)
Impairment losses on loans to associates		**(1,207)**	(1,596)
Share of losses of associates	20	**(6,222)**	(3,090)
Finance costs	10	**(247,067)**	(149,450)
Loss before taxation	11	**(4,839,557)**	(310,750)
Income tax credit	12	**7,385**	—
Loss for the year		**(4,832,172)**	(310,750)
Loss for the year attributable to owners of the Company		**(4,832,172)**	(310,750)
Loss per share attributable to owners of the Company	14		
— basic and diluted loss per share (HK cents)		**(73.04)**	(5.02)

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	2012 HK$'000	2011 HK$'000
Loss for the year	**(4,832,172)**	(310,750)
Other comprehensive (expense) income		
Exchange differences arising on translation	**(36,742)**	49,146
Total comprehensive expense for the year	**(4,868,914)**	(261,604)

Consolidated Statement of Financial Position

As at 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	15	**9,513,962**	13,250,527
Investment property	16	**116,566**	105,264
Intangible assets	17	**1,328,053**	1,113
Development in progress	18	**43,777**	1,731,667
Exploration and evaluation assets	19	**299,206**	385,912
Interests in associates	20	**—**	—
Available-for-sale financial asset	21	**—**	3,914
Other asset		**1,150**	1,150
Loan note receivable	22	**—**	—
Prepayments for exploration and evaluation expenditure	23	**10,458**	22,016
Deposits for property, plant and equipment and other long-term deposits	24	**40,889**	94,661
Amount due from an associate	20	**—**	200,000
Deferred tax assets	31	**7,385**	—
		11,361,446	15,796,224
Current assets			
Trade receivables	25	**5,389**	—
Inventories	26	**24,331**	—
Other receivables, prepayments and deposits		**30,583**	53,133
Held-for-trading investments	27	**27,169**	37,626
Amounts due from associates	20	**9,900**	10,107
Cash and cash equivalents	28	**84,963**	10,175
		182,335	111,041
Current liabilities			
Trade payables	29	**57,102**	37,107
Other payables and accruals		**143,143**	55,402
Convertible notes	30	**12,310**	1,996,516
Advances from a Director	38(b)	**479,548**	42,184
		692,103	2,131,209
Net current liabilities		**(509,768)**	(2,020,168)
Total assets less current liabilities		**10,851,678**	13,776,056

Consolidated Statement of Financial Position

As at 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liability			
Convertible notes	30	**2,506,364**	701,897
Net assets		**8,345,314**	13,074,159
Financed by:			
Capital and reserves			
Share capital	32	**135,131**	132,131
Reserves		**8,210,126**	12,941,971
Equity attributable to owners of the Company		**8,345,257**	13,074,102
Non-controlling interests		**57**	57
Total equity		**8,345,314**	13,074,159

The consolidated financial statements on pages 53 to 118 were approved and authorised for issue by the Board of Directors on 29 June 2012 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 2012

	Attributable to owners of the Company									
	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$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 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
At 31 March 2011 and 1 April 2011	132,131	12,993,006	199,594	654,948	39,468	15,784	(960,829)	13,074,102	57	13,074,159
Comprehensive expense										
Loss for the year	—	—	—	—	—	—	(4,832,172)	(4,832,172)	—	(4,832,172)
Other comprehensive expense										
Exchange differences arising on translation	—	—	—	—	—	(36,742)	—	(36,742)	—	(36,742)
Total comprehensive expense for the year	—	—	—	—	—	(36,742)	(4,832,172)	(4,868,914)	—	(4,868,914)
Equity-settled share-based payments	—	—	—	—	22,569	—	—	22,569	—	22,569
Conversion options unexercised at expiry date (Note 30)	—	—	—	(654,948)	—	—	654,948	—	—	—
Issue of shares										
Placement of new shares	3,000	114,500	—	—	—	—	—	117,500	—	117,500
At 31 March 2012	135,131	13,107,506	199,594	—	62,037	(20,958)	(5,138,053)	8,345,257	57	8,345,314

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Operating activities			
Loss before taxation		**(4,839,557)**	(310,750)
Interest income		**(2,303)**	(2,655)
Finance costs	10	**247,067**	149,450
Loss on write off of property, plant and equipment	15	**49,910**	4
Loss on write off of intangible assets	17	**133**	—
Loss on write off of exploration and evaluation assets	19	**4,113**	—
Loss on write off of deposit and loan and receivable		**48,898**	1,566
Loss on disposal of property, plant and equipment		**54**	15
Share of losses of associates	20	**6,222**	3,090
Amortisation of intangible assets		**3,873**	640
Amortisation of the transaction costs on issuance of convertible notes	30	**6,001**	3,001
Depreciation		**17,643**	27,877
Fair value gain on investment property	16	**(7,031)**	(7,231)
Fair value loss from held-for-trading investments		**10,457**	7,581
Fair value gain on derivative component of convertible notes	30	**(432,016)**	(71,803)
Impairment loss on property, plant and equipment	15	**4,018,605**	—
Impairment loss on intangible assets	17	**562,835**	—
Impairment loss on development in progress	18	**18,560**	—
Impairment losses on loans to associates		**1,207**	1,596
Impairment loss on available-for-sale financial asset	21	**6,797**	4,785
Gain on early redemption of a loan note receivable		**—**	(8,387)
Equity-settled share-based payments	33	**22,569**	23,414
Operating cash flows before movements in working capital		**(255,963)**	(177,807)
Increase in inventory		**(4,544)**	—
Increase in trade receivables		**(5,389)**	—
Decrease (increase) in other receivables, prepayments and deposits		**22,550**	(21,264)
Decrease in prepayment for exploration and evaluation expenditure		**11,558**	—
Increase in trade payables		**19,995**	—
Increase in other payables and accruals		**87,741**	6,158
Repayment of advance from an associate		**—**	(624)
Net cash used in operations		**(124,052)**	(193,537)
Income tax paid		**—**	—
Net cash used in operating activities		**(124,052)**	(193,537)

	Notes	2012 HK$'000	2011 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(296,020)**	(235,917)
Proceeds received from disposal of property, plant and equipment		**14**	8
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		**(192,581)**	(455,998)
Exploration and evaluation asset additions	19	**(9,004)**	(74,833)
Intangible asset additions	17	**(94)**	(876)
Deposits for property, plant and equipment and other long-term deposits		**(60)**	(1,529)
Security deposit paid for contract mining and equipment purchase		**—**	(31,200)
Capital contribution to associates		**(6,222)**	(1,026)
Advances to associates		**(1,000)**	(4,643)
Repayment of long-term advances by an associate		**200,000**	—
Available-for-sale financial asset addition	21	**(2,883)**	(8,699)
Disposal of subsidiaries	34	**—**	36,129
Advances to investment company		**—**	(1,157)
Bank interest received		**2,303**	2,422
Net cash used in investing activities		**(305,547)**	(606,422)
Financing activities			
Proceeds received from share placements		**120,000**	—
Proceeds received from issue of convertible notes		**—**	766,800
Proceeds received from exercise of share options	32(a)	**—**	8,047
Payment for share issue costs		**(2,500)**	—
Advances from a Director		**619,300**	258,000
Repayment of advances from a Director		**(200,000)**	(216,000)
Repayment of a loan note		**—**	(100,000)
Interest paid		**(27,113)**	(16,493)
Transaction cost on issuance of convertible notes		**—**	(18,005)
Net cash generated from financing activities		**509,687**	682,349
Net increase (decrease) in cash and cash equivalents		**80,088**	(117,610)
Cash and cash equivalents at beginning of the year		**10,175**	121,299
Effect of foreign exchange rate changes		**(5,300)**	6,486
Cash and cash equivalents at end of the year		**84,963**	10,175

Notes to the Consolidated Financial Statements

For the year ended 31 March 2012

1. General

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

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

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

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$509.8 million at 31 March 2012, 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 Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and chairman of the Company, has provided facilities amounting to HK$850 million of which HK$388.7 million was unutilised as at 31 March 2012 to meet the Group's future funding needs. In addition, subsequent to the end of the reporting period, Mr. Lo has agreed not to demand repayment of such facilities for at least 18 months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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)	Improvements to HKFRSs issued in 2010
HKAS 24 (As revised in 2009)	Related Party Disclosures
HK (IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax — Recovery of Underlying Assets[2]
HKAS 19 (As revised in 2011)	Employee Benefits[4]
HKAS 27 (As revised in 2011)	Separate Financial Statements[4]
HKAS 28 (As revised in 2011)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009–2011 Cycle[4]
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 7 and 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

[1] *Effective for annual periods beginning on or after 1 July 2011*
[2] *Effective for annual periods beginning on or after 1 January 2012*
[3] *Effective for annual periods beginning on or after 1 July 2012*
[4] *Effective for annual periods beginning on or after 1 January 2013*
[5] *Effective for annual periods beginning on or after 1 January 2014*
[6] *Effective for annual periods beginning on or after 1 January 2015*

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in the consolidated income statement.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

HKFRS 9 "Financial Instruments" *(Continued)*

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in the consolidated income statement. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to the consolidated income statement. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in the consolidated income statement.

The Directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for annual period beginning on 1 April 2015. Based on the Group's financial assets and financial liabilities at 31 March 2012, the application of the HKFRS 9 will affect the classification and measurement of the Group's available-for-sale investment which currently stated at cost less impairment.

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

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these standards are described as follows:

- HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and HK (SIC)-Int 12 "Consolidation — Special Purpose Entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

- HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these standards are applied early at the same time.

The Directors anticipate that these standards will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 April 2013. However, the Directors anticipate that the application of these five standards in future accounting periods may not have a material impact on amounts reported in the consolidated financial statements.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

HKFRS 13 "Fair Value Measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial Instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 April 2013 and that the application of the new Standard may result in more extensive disclosures in the consolidated financial statements.

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

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group's annual period beginning on 1 April 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to HKAS 12 "Deferred Tax — Recovery of Underlying Assets"

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for the Group's annual period beginning on 1 April 2012. The Directors anticipate that the application of the amendments to HKAS 12 in future accounting periods may result in adjustments to the amounts of deferred tax liabilities recognised regarding the Group's investment properties. Based on the amendments, the Directors assessed and concluded that the presumption set out in the amendments to HKAS 12 will not be rebutted. However, the Directors considered that the application of the amendments to HKAS 12 in future accounting periods is not expected to have a material impact on the financial performance and positions of the Group.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

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

This Interpretation applies to all types of natural resources that are extracted using the surfacing mining activity process. It considers when and how to account separately for the two benefits arising from the stripping activity, which are (1) the usable ore that can be used to produce inventory; and (2) improved access to further quantities of material that will be mined in future periods, as well as how to measure these benefits both initially and subsequently.

HK(IFRIC)-Int 20 is effective for annual periods beginning on or after 1 January 2013 with transitional provisions. The Directors anticipate that the Interpretation will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 April 2013. The Directors are currently evaluating the impact of the adoption of this new interpretation to the financial position or result of the Group.

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 financial performance and positions of the Group.

3. Impairment Loss Recognised on Khushuut Mine Related Assets

At the end of the reporting period, the Group engaged an independent qualified professional valuer (the "**Independent Valuer**"), who is not connected with the Group, to determine the recoverable amount of its property, plant and equipment, intangible assets and development in progress related to the Khushuut mine operations (collectively referred to as "**Khushuut Related Assets**"). For the purposes of impairment testing, these Khushuut Related Assets are treated as a cash generating unit which represents the Group's coking coal mining operation in Western Mongolia. The recoverable amount of the Khushuut Related Assets has been determined based on a value in use calculation.

As the recoverable amount of the Khushuut Related Assets determined by the Independent Valuer is significantly lower than their carrying values, an impairment loss amounting HK$4,600,000,000 was recognised against the respective assets on a pro-rata basis with reference to their net asset values as follows:

	Carrying values before impairment	**Impairment loss**	**Carrying values after impairment**
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	13,497,409	4,018,605	9,478,804
Intangible assets	1,890,411	562,835	1,327,576
Development in progress	62,337	18,560	43,777
Total	15,450,157	4,600,000	10,850,157

3. Impairment Loss Recognised on Khushuut Mine Related Assets *(Continued)*

The main reason for such a significant impairment loss being recognised this year is due to a change made to the Group's business plan in the current year. Presently, without obtaining the water permit for setting up a coal processing plant at the site, unprocessed coking coal is sold to its customers at a lower price to reflect the fact that its customers will have to wash and process the coking coal themselves. The original plan was to have a coal processing plant set up at the Khushuut mine site. However, due to continued delays of obtaining a water permit for the coal processing plant and in view of the pressing need of generating cash inflow from this operation, the Group has decided to build a coal washing plant with a smaller capacity in Xinjiang, the PRC before a permanent washing plant is set up in Khushuut. This change has a significant impact to the cash inflow to be generated by the Group in next two years and negatively impacts the value in use calculation.

4. 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 and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment property and certain financial instruments which are measured at fair value as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange of goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (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 subsidiaries are presented separately from the Group's equity therein.

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 (effective from 1 April 2010 onwards).

4. Significant Accounting Policies *(Continued)*

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.

Revenue recognition

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

Coal sales

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

Revenue is not reduced for royalties and other tax payables from the Group's production.

4. Significant Accounting Policies *(Continued)*

Revenue recognition *(Continued)*

Interest income

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

Property, plant and equipment

Property, plant and equipment including 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 in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

Mining structures

Mining structures include deferred stripping costs and mining related property, plant and equipment. When proven and probable coal reserves have been determined, stripping costs incurred to develop coal mines are capitalised as part of the cost of the mining structures. Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral properties, in which case the stripping costs would be capitalised into property, plant and equipment as mining structures. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body.

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

Mineral properties

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 costs of acquisition of mining rights and capitalised exploration costs which are capitalised initially under exploration and evaluation assets and transferred to property, plant and equipment as mineral properties when the technical feasibility and commercial viability of extracting mineral resources become demonstrable.

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

4. Significant Accounting Policies *(Continued)*

Construction in progress

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

Intangible assets

Intangible assets acquired separately

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

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

Intangible assets (exclusive right of use of paved road)

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

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

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.

4. 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 initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of the investment property are included in the consolidated 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or a cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated income statement.

4. 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 (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

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

The Group as lessee

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

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

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.

Inventories

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

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

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

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

4. 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 foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to the consolidated income statement.

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

4. Significant Accounting Policies *(Continued)*

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 those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Current and 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 current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4. Significant Accounting Policies *(Continued)*

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated 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**"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- 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.

4. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

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

Available-for-sale financial assets

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

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

Impairment of financial assets

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

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

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

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

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

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

4. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Convertible 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 in accordance with the contractual arrangements and the definitions of a financial liability and an equity instrument. 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.

4. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Convertible notes (Continued)

Convertible notes contain liability and conversion option derivative

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

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in the consolidated 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 conversion option derivative is 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 trade payables, other payables and advances from a Director are subsequently measured at amortised cost, using the effective interest method.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when 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 of obligation under the contract, as 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 the revenue recognition policy.

4. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the 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 are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

Share-based payment transactions

Equity-settled share-based payment transactions

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

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

5. Key Sources of Estimation Uncertainty

Other than the uncertainty relating to certain assets subject to MPL (as defined in Note 15) as discussed in details in Note 15 and Note 19(b) and (c), the following are other key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Reserve estimates

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

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

5. Key Sources of Estimation Uncertainty *(Continued)*

Reserve estimates *(Continued)*

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

- carrying values of mining structures, mineral properties and exclusive right of use of paved road may be affected due to changes in estimated future cash flows, which may result in further impairment loss or a reversal of previously recognised impairment loss on these assets;

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

- the carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

As at 31 March 2012, carrying values of mining structures, mineral properties and exclusive right of use of paved road are HK$332,123,000 (2011: HK$240,776,000), HK$9,091,902,000 (2011: HK$12,913,882,000) and HK$1,327,576,000 (2011: HK$Nil) respectively.

Fair value of derivative financial instruments

As described in Note 30, the Directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative components of the convertible notes, Binomial Valuation Model is used for valuation of the component which involves several key assumptions and estimates including share price volatility, dividend yield and risk free rate. The Directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

As at 31 March 2012, fair value of derivative components of the convertible notes is HK$285,208,000 (2011: HK$106,178,000).

Estimated impairment of Khushuut Related Assets

As described in Note 3, the Group engaged an Independent Valuer to determine the recoverable amount of the Khushuut Related Assets. For the purposes of impairment testing, these Khushuut Related Assets are treated as a cash generating unit and its recoverable amount has been determined based on a value in use calculation, which requires the Group to estimate the future cash flows expected to arise from the cash generating unit in order to calculate the present value. Key assumptions used in the calculation includes annual production estimate, forecasted selling price, estimated period of production and discount rate. During the year ended 31 March 2012, an impairment total amounting HK$4,600,000,000 was recognised against the Khushuut Related Assets as its recoverable amount is significantly lower than its carrying values. Where the actual future cash flows vary against what were expected, a material further impairment loss or reversal of previously recognised impairment loss may arise.

As at 31 March 2012, the carrying value of Khushuut Related Assets is HK$10,850,157,000 (net of impairment loss of HK$4,600,000,000) (31 March 2011: carrying value of HK$14,942,394,000, net of impairment loss of HK$Nil).

6. Capital Risk Management

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

The capital structure of the Group consists of debt, which include advances from a Director, convertible notes disclosed in Note 30, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

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

7. Financial Instruments

7a. Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	**138,369**	266,870
Available-for-sale financial asset	**—**	3,914
Held-for-trading investments	**27,169**	37,626
Financial liabilities		
Measured at amortised cost	**2,912,372**	2,725,793
Embedded derivative component of convertible notes	**285,208**	106,178

7b. Financial risk management objectives and policies

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

7. Financial Instruments *(Continued)*

7b. Financial risk management objectives and policies *(Continued)*

Market risk

(i) Currency risk

The Group mainly operates in Hong Kong, Mainland China and Mongolia and the exposure to foreign currency risk mainly arises from trade receivables, other receivables, cash and cash equivalents, trade payables, other payables, 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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong Dollars ("**HK$**")	**3,002,457**	2,746,992	**53,796**	245,806
United States Dollars	**—**	—	**—**	39
Renminbi ("**RMB**")	**79,414**	602	**716**	3,950
Mongolian Tugrik ("**MNT**")	**52,330**	39,213	**6,389**	3,477

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

Sensitivity analysis

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

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

The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in US$ against the relevant foreign currencies. 5% (2011: 5%) are the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. A negative/positive number below indicates an increase/decrease in post-tax loss where US$ weakening 5% (2011: 5%) against RMB and MNT respectively. For a 5% (2011: 5%) strengthen of US$ against RMB and MNT respectively, there would be an equal and opposite impact on the loss.

	RMB		MNT	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loss for the year (Note)	**(3,935)**	167	**(2,297)**	(1,787)

Note:

This is mainly attributable to the exposure outstanding other receivables, bank balances and trade and other payables denominated in RMB and MNT at year end.

7. Financial Instruments *(Continued)*

7b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to a fixed-rate loan note receivable (see Note 22) and fixed-rate borrowings, such as convertible notes (see Note 30 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 28) 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 is insignificant.

(iii) Other price risk

(a) Price risk on equity securities

The Group is exposed to equity price risk through its investments in listed equity securities. 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 2012 would decrease/increase by HK$1,358,000 (2011: HK$1,881,000) as a result of the changes in fair value of held-for-trading investments.

(b) Price risk on embedded derivatives components of the convertible notes (defined under Note 30)

For the year ended 31 March 2012, 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 price of the Company had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the year would increase by approximately HK$20,160,000 (2011: HK$2,024,000)/decrease by approximately HK$19,494,000 (2011: HK$1,623,000), as a result of changes in fair value of the derivative component of the convertible notes.

7. Financial Instruments *(Continued)*

7b. 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 30) *(Continued)*

Sensitivity analysis *(Continued)*

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$21,114,000 (2011: HK$1,364,000)/decrease by approximately HK$21,061,000 (2011: 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 basis 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$1,082,000 (2011: HK$4,321,000)/decrease by approximately HK$1,097,000 (2011: 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.

Credit risk

As at 31 March 2012, 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 was exposed to concentration of credit risk on amounts due from an associate. At 31 March 2011, the amount due from an associate represented an advance of HK$200,000,000 granted to an associate. The failure of the associate 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 associate. In addition, the Group reviewed the balance with the associate at the end of the reporting period to ensure that adequate impairment loss was made for irrecoverable amount. In this regard, the Directors of the Company considered that the Group's credit risk was significantly reduced. The amount was fully repaid during the current year.

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.

7. Financial Instruments *(Continued)*

7b. Financial risk management objectives and policies *(Continued)*

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$509,768,000 (2011: HK$2,020,168,000).

As at 31 March 2012, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future as Mr. Lo has provided facilities amounting to HK$850 million with HK$388.7 million unutilised to meet the Group's future funding needs. In addition, subsequent to the end of the reporting period, Mr. Lo has agreed not to demand repayment of these advances for at least 18 months from the end of the reporting period.

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.

2012

	Less than 1 month or repayable on demand HK$'000	**1–3 months HK$'000**	**3 months to 1 year HK$'000**	**1–5 years HK$'000**	**Total undiscounted cash flows HK$'000**	**Carrying amount at 31 March 2012 HK$'000**
Trade payables (Note 29)	**57,102**	**—**	**—**	**—**	**57,102**	**57,102**
Other payables	**66,036**	**659**	**75,561**	**—**	**142,256**	**142,256**
Advances from a Director (Note 38(b))	**479,548**	**—**	**—**	**—**	**479,548**	**479,548**
Convertible notes (Note 30)	**—**	**—**	**27,053**	**2,973,823**	**3,000,876**	**2,518,674**
	602,686	**659**	**102,614**	**2,973,823**	**3,679,782**	**3,197,580**

2011

	Less than 1 month or repayable on demand 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
Trade payables (Note 29)	37,107	—	—	—	37,107	37,107
Other payables	50,100	3,965	202	—	54,267	54,267
Advances from a Director (Note 38(b))	42,184	—	—	—	42,184	42,184
Convertible notes (Note 30)	26,838	—	—	820,476	847,314	714,045
Zero coupon convertible note (Note 30)	2,000,000	—	—	—	2,000,000	1,984,368
	2,156,229	3,965	202	820,476	2,980,872	2,831,971

7. Financial Instruments *(Continued)*

7c. Fair value

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

- the fair value of derivative instruments is determined using Binomial Valuation Model based on assumptions set out in Note 30.

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

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 active market for identical asset or liability.

- 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 liability, 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).

7. Financial Instruments *(Continued)*

7c. Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

2012

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Held-for-trading — listed equity securities (Note 27)	27,169	—	—	27,169

2011

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Held-for-trading — listed equity securities (Note 27)	37,626	—	—	37,626

2012

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial liabilities				
Embedded derivative component of convertible notes (Note 30)	—	—	285,208	285,208

2011

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial liabilities				
Embedded derivative component of convertible notes (Note 30)	—	—	106,178	106,178

There was no transfer between Level 1 and 2 in both years.

7. Financial Instruments *(Continued)*

7c. Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

Reconciliation of Level 3 fair value measurements of financial liabilities

	Embedded derivative component of convertible notes HK$'000
At 1 April 2010	—
Issue of convertible notes	177,981
Fair value gain recognised in consolidated income statement	(71,803)
At 31 March 2011	106,178
Issue of convertible note	**611,046**
Fair value gain recognised in consolidated income statement	**(432,016)**
At 31 March 2012	**285,208**

8. Revenue and Segment Information

The Group is principally engaged in the energy and related resources business. Revenue represents revenue arising on the sale of coking coal to external customers. During the year ended 31 March 2012, as the Group was still at its initial stage of commercial production, it had one customer that individually exceeded 10% of the Group's turnover, amounting to HK$6,124,000.

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

Segment Revenue and Result

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

For the year ended 31 March 2012

	Coal mining HK$'000	Total HK$'000
Segment revenue	**6,215**	**6,215**
Segment loss	**(4,899,358)**	**(4,899,358)**
Unallocated expenses (Note)		**(107,514)**
Interest income		**18**
Other gains and losses		**428,590**
Impairment loss on available-for-sale financial asset		**(6,797)**
Impairment losses on loans to associates		**(1,207)**
Share of losses of associates		**(6,222)**
Finance costs		**(247,067)**
Loss before taxation		**(4,839,557)**

8. Revenue and Segment Information *(Continued)*

Segment Revenue and Result *(Continued)*

For the year ended 31 March 2011

	Coal mining HK$'000	Total HK$'000
Segment revenue	—	—
Segment loss	(97,305)	(97,305)
Unallocated expenses (Note)		(133,147)
Interest income		353
Other gains and losses		78,270
Impairment loss on available-for-sale financial asset		(4,785)
Impairment losses on loans to associates		(1,596)
Share of losses of associates		(3,090)
Finance costs		(149,450)
Loss before taxation		(310,750)

Note:

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment loss represents the loss from the coal mining operation without allocation of expenses not directly related to the operating segment, unallocated interest income, finance costs, change in fair value of investment property, held-for-trading investments and derivative component, gain on early redemption of a loan note receivable, impairment losses on available-for-sale financial asset and loans to associates and share of losses of associates. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and performance assessment.

8. Revenue and Segment Information *(Continued)*

Segment Assets and Liabilities

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

As at 31 March 2012

	HK$'000
ASSETS	
Segment assets — coal mining	**11,031,801**
Investment property	**116,566**
Held-for-trading investments	**27,169**
Amounts due from associates	**1,855**
Cash and cash equivalents	**56,801**
Other unallocated assets (Note)	**309,589**
Consolidated total assets	**11,543,781**
LIABILITIES	
Segment liabilities — coal mining	**155,673**
Convertible notes	**2,518,674**
Advances from a Director	**479,548**
Other unallocated liabilities	**44,572**
Consolidated total liabilities	**3,198,467**

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

Note:

Other unallocated assets mainly represent property, plant and equipment, intangible assets, exploration right for iron ore, available-for-sale financial asset, other asset and other receivables, prepayments and deposits not for coal mining business.

8. Revenue and Segment Information *(Continued)*

Other Segment Information

For the year ended 31 March

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

Coal mining

	2012 HK$'000	2011 HK$'000
Capital additions (Note)	**502,567**	920,383
Amortisation of intangible assets	**16,423**	568
Depreciation of property, plant and equipment	**22,737**	17,793
Impairment loss on property, plant and equipment	**4,018,605**	—
Impairment loss on intangible assets	**562,835**	—
Impairment loss on development in progress	**18,560**	—
Loss on write off of property, plant and equipment	**49,910**	4
Loss on write off of intangible assets	**133**	—
Loss on write off of exploration and evaluation assets	**4,113**	—
Loss on write off of deposit and loan and receivable	**48,898**	409

Note:

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

Geographical Information

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

All the coal sales revenue is derived from Mongolia.

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

	Non-current assets	
	2012 HK$'000	2011 HK$'000
Hong Kong	**5,485**	7,556
Mongolia	**11,224,499**	15,467,647
Mainland China	**124,077**	117,107
	11,354,061	15,592,310

Note:

Non-current assets exclude financial instruments and deferred tax assets.

9. Other Gains and Losses

	2012 HK$'000	2011 HK$'000
Fair value gain on investment property	**7,031**	7,231
Fair value loss on held-for-trading investments	**(10,457)**	(7,581)
Fair value gain on derivative component of convertible notes (Note 30)	**432,016**	71,803
Gain on early redemption of a loan note receivable	**—**	8,387
Loss on write off of property, plant and equipment (Note)	**(49,910)**	(4)
Loss on write off of intangible assets	**(133)**	—
Loss on write off of exploration and evaluation assets (Note 19(b))	**(4,113)**	—
Loss on write off of deposit and loan and receivable	**(48,898)**	(1,566)
	325,536	78,270

Note:

This mainly represents write off of property, plant and equipment previously used in the water exploration project. Management is in view that this project is not expected to bring any future economic benefits to the Group, therefore, the corresponding property, plant and equipment are written off in the current year.

10. Finance Costs

	2012 HK$'000	2011 HK$'000
Interest on borrowings wholly repayable within five years:		
Interest expense:		
Convertible notes (Note 30)	**273,389**	323,711
Loan note (Note a)	**—**	2,031
Advances from a Director (Note 38(b) and Note b)	**18,064**	1,677
Less: interest expense capitalised (Note 18 and Note c)	**(44,386)**	(177,969)
	247,067	149,450

Notes:

(a) The amount represented interest paid for an unsecured loan note with a principal amount of HK$787,500,000, interest bearing at 5% per annum. The loan note was issued as part of the consideration to acquire mining and exploration rights and fully repaid during the year ended 31 March 2011.

(b) 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 per annum quoted by the Hong Kong and Shanghai Banking Corporation Limited from time to time.

(c) The weighted average capitalisation rate on convertible notes and advances from a Director is 10% (2011: 13.16%) per annum on expenditure on road construction which is a qualifying asset.

11. Loss Before Taxation

	2012 HK$'000	2011 HK$'000
Loss before taxation has been arrived at after charging (crediting):		
Directors' emoluments (Note 13(a))	**9,044**	20,312
Other staff costs:		
Salaries and other benefits	**73,777**	74,624
Retirement benefits scheme contributions (excluding contributions for Directors)	**2,843**	2,059
Total staff costs (including equity-settled share-based payments)	**85,664**	96,995
Amortisation of intangible assets	**3,873**	640
Auditor's remuneration	**2,700**	3,316
Cost of inventories recognised as an expense (included in other expenses)	**20,469**	—
Depreciation of property, plant and equipment	**17,643**	27,877
Direct operating expenses arising from investment property that do not generate rental income	**16**	12
Loss on disposal of property, plant and equipment	**54**	15
Net exchange losses (gains) (included in other expenses)	**1,357**	(420)
Operating lease rental in respect of office premises	**16,746**	17,544

12. Income Tax Credit

	2012 HK$'000	2011 HK$'000
Current tax	**—**	—
Deferred tax (Note 31)		
Current year	**(7,385)**	—
	(7,385)	—

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

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

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

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

12. Income Tax Credit *(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:

	2012 HK$'000	2011 HK$'000
Loss before taxation	**(4,839,557)**	(310,750)
Calculated at a tax rate of 16.5%	**(798,527)**	(51,274)
Tax effect on income not subject to tax	**(72,447)**	(13,523)
Tax effect on expenses not deductible for tax purposes	**770,545**	52,456
Tax effect on deductible temporary differences not recognised	**113,728**	—
Tax effect on tax loss not recognised	**8,148**	8,639
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(28,832)**	3,702
Income tax credit	**(7,385)**	—

13. Directors' and Senior Management's Emoluments

(a) Directors' emoluments

The remuneration of each of the Directors for the year ended 31 March 2012 is as follows:

Name of Directors	Fees HK$'000	Salaries HK$'000	Other benefits HK$'000	Equity-settled share-based payments HK$'000	Employer's contribution to MPF Scheme HK$'000	Total HK$'000
Executive Directors						
Lo Lin Shing, Simon	**—**	**—**	**1,355**	**2,477**	**—**	**3,832**
Liu Zhuo Wei	**—**	**—**	**—**	**—**	**—**	**—**
Yvette Ong	**—**	**2,111**	**231**	**1,724**	**12**	**4,078**
Non-executive Director						
To Hin Tsun, Gerald	**10**	**—**	**—**	**206**	**—**	**216**
Independent Non-executive Directors						
Peter Pun	**100**	**—**	**—**	**206**	**—**	**306**
Lau Wai Piu	**100**	**—**	**—**	**206**	**—**	**306**
Tsui Hing Chuen, William	**100**	**—**	**—**	**206**	**—**	**306**
	310	**2,111**	**1,586**	**5,025**	**12**	**9,044**

13. Directors' and Senior Management's Emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

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
Executive Directors						
Lo Lin Shing, Simon	—	—	1,218	11,905	—	13,123
Liu Zhuo Wei	—	—	—	—	—	—
Yvette Ong	—	1,707	200	992	12	2,911
Non-executive Director						
To Hin Tsun, Gerald	10	—	—	992	—	1,002
Independent Non-executive Directors						
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

During the two years ended 31 March 2012 and 2011, no Director waived any directors' emoluments.

(b) Senior executives' emoluments

Of the five individuals with the highest emoluments in the Group, two (2011: one) were Directors of the Company whose emoluments are included in Note (a) above. The emoluments of the remaining three (2011: four) highest paid individuals during the year are as follows:

	2012 HK$'000	2011 HK$'000
Basic salaries, other allowances and benefits in kind	**10,753**	14,510
Contributions to MPF Scheme	**24**	32
Equity-settled share-based payments	**16,511**	3,968
Termination benefits for loss of office	**—**	3,000
	27,288	21,510

13. Directors' and Senior Management's Emoluments *(Continued)*

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

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2012**	2011
HK$3,000,001–HK$3,500,000	**—**	1
HK$4,000,001–HK$4,500,000	**—**	1
HK$6,000,001–HK$6,500,000	**1**	1
HK$6,500,001–HK$7,500,000	**—**	1
HK$10,000,001–HK$10,500,000	**1**	—
HK$10,500,001–HK$11,000,000	**1**	—
	3	4

14. Loss per Share

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

	2012	2011
	HK$'000	HK$'000
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	**(4,832,172)**	(310,750)

	2012	2011
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue for calculation of basic and diluted loss per share	**6,615,974**	6,190,675

Note:

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

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

15. Property, Plant and Equipment

	Mining structures	Mineral properties (Note)	Construction in progress	Leasehold improvements	Computer equipment	Furniture, fixtures and office equipment	Plant, machinery and other equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST									
At 1 April 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
Exchange adjustments	**—**	**(36,181)**	**—**	**170**	**48**	**62**	**(8)**	**872**	**(35,037)**
Additions	**267,343**	**251**	**21,934**	**18**	**865**	**527**	**5,070**	**4,946**	**300,954**
Written off	**(29,531)**	**(16,698)**	**—**	**(4,133)**	**(1,112)**	**(1,441)**	**(687)**	**(6,182)**	**(59,784)**
Transfer from exploration and evaluation assets	**—**	**91,597**	**—**	**—**	**—**	**—**	**—**	**—**	**91,597**
Disposals	**—**	**—**	**—**	**—**	**(171)**	**—**	**—**	**(109)**	**(280)**
At 31 March 2012	**494,544**	**12,952,851**	**78,003**	**23,300**	**4,861**	**5,740**	**18,174**	**43,462**	**13,620,935**
ACCUMULATED DEPRECIATION									
At 1 April 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
Exchange adjustments	**—**	**—**	**—**	**145**	**47**	**48**	**(1)**	**437**	**676**
Charge for the year	**5,659**	**6,374**	**—**	**1,376**	**705**	**340**	**1,463**	**8,903**	**24,820**
Written off	**—**	**—**	**—**	**(3,970)**	**(1,042)**	**(1,221)**	**(134)**	**(3,507)**	**(9,874)**
Disposals	**—**	**—**	**—**	**—**	**(171)**	**—**	**—**	**(41)**	**(212)**
Impairment loss (Note 3)	**140,806**	**3,854,575**	**23,224**	**—**	**—**	**—**	**—**	**—**	**4,018,605**
At 31 March 2012	**162,421**	**3,860,949**	**23,224**	**23,149**	**3,600**	**3,874**	**4,511**	**25,245**	**4,106,973**
CARRYING VALUE									
At 31 March 2012	**332,123**	**9,091,902**	**54,779**	**151**	**1,261**	**1,866**	**13,663**	**18,217**	**9,513,962**
At 31 March 2011	240,776	12,913,882	56,069	1,647	1,170	1,885	10,616	24,482	13,250,527

15. 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 licences that overlap the Defined Prohibited Areas will be terminated within five months following the enactment of the law.*

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

*During the year ended 31 March 2011, MoEnCo LLC ("**MoEnCo**"), a wholly owned subsidiary of the Group, has been notified by MRAM that four mining concessions (licence 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 the 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 licences as at 31 March 2012. The Group legal advisers have confirmed that their interpretation of the relevant legislation is that, following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licenced area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. The management also considers that even if the licences were revoked due to the MPL, the Mongolian government would pay a reasonable compensation to the Group. Hence, the management concluded that there is no further impairment, other than those as set out in Note 3, on the corresponding mineral properties, mining structures, exclusive right of use of paved road (Note 17) and development in progress (Note 18) as at 31 March 2012 amounting to approximately HK$9,092 million, HK$332 million, HK$1,328 million and HK$44 million respectively (31 March 2011: amounting to approximately HK$12,914 million, HK$241 million, HK$Nil and HK$1,732 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 related assets.*

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

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

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

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

16. Investment Property

	2012 HK$'000	2011 HK$'000
At beginning of the year	**105,264**	94,278
Increase in fair value recognised in the consolidated income statement	**7,031**	7,231
Exchange adjustment	**4,271**	3,755
At end of the year	**116,566**	105,264

The fair value of the Group's investment property at 31 March 2012 has been arrived at on the basis of a valuation carried out on that date by Roma Appraisals Limited, an independent qualified professional valuer not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in similar locations and condition. The investment property is located in Beijing, Mainland China and is held under a lease with 54 years remaining at 31 March 2012.

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

17. Intangible Assets

	Software (Note a) HK$'000	**Exclusive right of use of paved road** (Note b) HK$'000	**Total** HK$'000
COST			
At 1 April 2010	1,498	—	1,498
Additions	876	—	876
At 31 March 2011 and 1 April 2011	2,374	—	2,374
Additions	**94**	**—**	**94**
Written off	**(145)**	**—**	**(145)**
Transfer from development in progress (Note 18)	**—**	**1,906,297**	**1,906,297**
At 31 March 2012	**2,323**	**1,906,297**	**1,908,620**
ACCUMULATED AMORTISATION			
At 1 April 2010	621	—	621
Charge for the year	640	—	640
At 31 March 2011 and 1 April 2011	1,261	—	1,261
Charge for the year	**597**	**15,886**	**16,483**
Written off	**(12)**	**—**	**(12)**
Impairment (Note 3)	**—**	**562,835**	**562,835**
At 31 March 2012	**1,846**	**578,721**	**580,567**
CARRYING VALUE			
At 31 March 2012	**477**	**1,327,576**	**1,328,053**
At 31 March 2011	1,113	—	1,113

17. Intangible Assets *(Continued)*

Notes:

(a) The above intangible assets have finite useful lives. The software is amortised on a straight-line basis over 3 years.

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

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

The above intangible assets have finite useful lives. The exclusive right of use of paved road is amortised on a straight-line basis over its Approved Period.

18. Development in Progress

	2012 **HK$'000**	2011 HK$'000
At beginning of the year	**1,731,667**	1,090,494
Addition	**192,581**	463,204
Interest expense capitalised (Note 10)	**44,386**	177,969
Transfer to intangible assets (Note 17)	**(1,906,297)**	—
Impairment (Note 3)	**(18,560)**	—
At end of the year	**43,777**	1,731,667

In connection to the exclusive right of use of paved road set out in Note 17, as at 31 March 2012, another section of the road of approximately 30 km is under construction and therefore remains as a development in progress.

19. Exploration and Evaluation Assets

	Mining and Exploration Rights (Note b) HK$'000	Others (Note c) HK$'000	Total HK$'000
COST			
At 1 April 2010	12,821,595	368,132	13,189,727
Additions	—	74,833	74,833
Transfer to property, plant and equipment (Note a)	(12,535,919)	(342,729)	(12,878,648)
At 31 March 2011 and 1 April 2011	285,676	100,236	385,912
Additions	**—**	**9,004**	**9,004**
Written off	**—**	**(4,113)**	**(4,113)**
Transfer to property, plant and equipment (Note a)	**—**	**(91,597)**	**(91,597)**
At 31 March 2012	**285,676**	**13,530**	**299,206**

Notes:

(a) 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 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.

*(b) The remaining balance of mining and exploration rights as at 31 March 2012 mainly represents an exploration concession of around 2,986 hectares in Western Mongolia for ferrous resources. This iron ore exploration concession might be affected by the MPL under the preliminary list. Zvezdametrika LLC ("**Z LLC**"), a subsidiary of the Group which owns the iron ore exploration concession, received a notice from the MRAM during the year ended 31 March 2010 about the potential revocation of its exploration concession under the MPL and Z LLC was requested to submit the estimated compensation for termination of licences with supporting documents. After taking legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRAM's request. The Group's legal advisers have confirmed that their interpretation of the relevant legislation is that, following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licenced area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. According to the best knowledge of the Group, there was no revocation of its licences as at 31 March 2012. The management also considered that even if the licences were revoked due to the MPL, the Mongolian government would pay a reasonable compensation to the Group. Hence, the management concluded that there is no impairment on the corresponding exploration and evaluation assets as at 31 March 2012 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.*

Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for two successive periods of 3 years each and mining licences for two successive periods of 20 years each. During the year ended 31 March 2012, the Group has renewed all exploration and mining licences before the expiry date, except for one exploration licence, licence no. 5309, owned by MoEnCo, as the management considered that the respective exploration is no longer fruitful. As a result, the corresponding evaluation and exploration assets are written off.

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

The Group confirmed with the Forest Agency of Mongolia and the Water Authority of Mongolia that another 10 exploration/mining concessions are overlapping with the forest areas or water basin protection zones therefore might potentially be affected by the MPL. However, the management considers this would not have a significant financial impact to the Group.

20. Interests in Associates/Amounts due from Associates

	2012 HK$'000	2011 HK$'000
Cost of associates		
Unlisted shares, at cost	**9,352**	47,364
Share of results	**(9,352)**	(11,235)
Less: disposal of associate (Note 34)		
Cost	**—**	(44,234)
Share of results	**—**	8,105
	—	—
Amounts due from associates	**16,143**	215,143
Impairment losses	**(6,243)**	(5,036)
	9,900	210,107
Analysis for reporting purposes:		
Non-current	**—**	200,000
Current	**9,900**	10,107
	9,900	210,107

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

	2012 HK$'000	2011 HK$'000
Total assets	**17,646**	221,004
Total liabilities	**(89,861)**	(252,935)
Net liabilities	**(72,215)**	(31,931)
Group's share of net assets of associates	**—**	—
Revenue	**—**	—
Loss for the year	**(36,355)**	(15,091)
Group's share of results of associates for the year	**(6,222)**	(3,090)

20. Interests in Associates/Amounts due from 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:

	2012 **HK$'000**	2011 HK$'000
Unrecognised share of losses of associates for the year	**1,836**	668
Accumulated unrecognised share of losses of associates	**5,091**	3,255

Details of the associates at 31 March 2012 and 2011 are as follows:

Name	**Place of incorporation**	**Particulars of issued share capital**	**Interest held** **2012**	2011	**Principal activities**
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
Profit Billion International Private Limited ("**Profit Billion**")[1]	Singapore	10 shares of S$1.00 each	**20%**	20%	Investment holding
Profit Rise International Private Limited ("**Profit Rise**")[2]	Singapore	100 shares of S$1.00 each	**20%**	20%	Investment holding

[1] *MoOiCo LLC ("**MoOiCo**") is wholly owned by Profit Billion with principal activity of oil exploration.*

[2] *OGCHL LLC ("**OGCHL**") is wholly owned by Profit Rise with principal activity of energy and related resources business.*

There is no commitment contracted but not provided for in respect of further capital investment in an associate as at 31 March 2012 (2011: Nil).

As at 31 March 2011, the amounts due from associates included an advance of HK$200,000,000 granted to Upper Easy Enterprises Limited. The advance was made for the purpose of securing a mineral resources project and therefore was classified as a non-current asset. The project was terminated and the advance was fully repaid during the current year.

The remaining balances represent shareholder's loans to MoOiCo and OGCHL. That amount is unsecured, interest free and repayable on demand.

21. Available-for-sale Financial Asset

	2012 **HK$'000**	2011 HK$'000
At beginning of the year	**3,914**	—
Addition	**2,883**	8,699
Less: impairment loss	**(6,797)**	(4,785)
At end of the year	**—**	3,914

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

A capital contribution of HK$2,883,000 (2011: HK$8,699,000) by the Group had been made in proportion to the percentage of shareholding. At 31 March 2012, the Group had no capital commitments in respect of the addition of financial assets.

22. Loan Note Receivable

	2012 **HK$'000**	2011 HK$'000
At beginning of the year	**—**	37,667
Add: interest income accrued	**—**	233
Add: gain on early redemption	**—**	8,387
Less: repayment received	**—**	(46,287)
At end of the year	**—**	—

The loan note had a face value of HK$46 million and was issued by Vision Values Holdings Limited at 4% interest per annum and was due to mature on 28 February 2012. It represented part of the consideration for the disposal of a subsidiary 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 2011.

23. Prepayments for Exploration and Evaluation Expenditure

	2012 HK$'000	2011 HK$'000
Road improvement and drilling equipment transport	—	11,558
Exploration drilling	10,458	10,458
	10,458	22,016

24. Deposits for Property, Plant and Equipment and Other Long-Term Deposits

	2012 HK$'000	2011 HK$'000
Electricity supply at mine site in Mongolia	—	48,898
Tractors, motor vehicles and others	9,689	14,563
Security deposit on contract mining and equipment purchase	31,200	31,200
	40,889	94,661

25. Trade Receivables

	2012 HK$'000	2011 HK$'000
Trade receivables	5,389	—

The Group allows a credit period of 30 days to its customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	2012 HK$'000	2011 HK$'000
1–30 days	5,359	—
31–60 days	26	—
61–90 days	4	—
	5,389	—

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$30,000 (2011: HK$Nil) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

25. Trade Receivables *(Continued)*

Ageing of trade receivables which are past due but not impaired

	2012 HK$'000	2011 HK$'000
1–30 days	26	—
31–60 days	4	—
	30	—

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

The carrying amount of the Group's trade receivables are denominated in the following currencies:

	2012 HK$'000	2011 HK$'000
US$	5,345	—
MNT	44	—
	5,389	—

26. Inventories

	2012 HK$'000	2011 HK$'000
Coal	23,571	—
Materials and supplies	760	—
	24,331	—

27. Held-for-Trading Investments

	2012 HK$'000	2011 HK$'000
Equity securities of companies listed in Hong Kong	27,169	37,626

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

28. Cash and Cash Equivalents

	2012 HK$'000	2011 HK$'000
Bank balances and cash	**37,360**	10,175
Short-term bank deposits	**47,603**	—
	84,963	10,175

The weighted average effective interest rate on short-term bank deposits was 0.05% (2011: 0.16%) per annum. The maturity days of the short-term bank deposits ranged from one to three days (2011: one week to one month). Cash at bank earns interest at rates based on daily bank deposit rates.

29. Trade Payables

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

	2012 HK$'000	2011 HK$'000
Current to 30 days	**23,389**	23,643
31 to 60 days	**16,201**	10,441
61 to 90 days	**17,512**	1,087
Over 90 days	**—**	1,936
	57,102	37,107

30. Convertible Notes

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

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

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

The 3% CTF Convertible Note has a maturity period of three years from the issue date to 15 June 2014 and can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$2 convertible note at the holder's option at any time between the issue date and the maturity date subject to anti-dilutive adjustments. Interest of 3% per annum will be paid up until the settlement date.

30. Convertible Notes *(Continued)*

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

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.

On 3 November 2010, the Company entered into a subscription agreement with Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited (the "**Subscriber**") under which the Subscriber has conditionally agreed to (i) subscribe for a 3.5% unsecured convertible note in the principal amount of HK$466.8 million (the "**First Note**") and (ii) accept an option exercisable within six months of the issue of the First Note to subscribe for a further convertible note in the principal amount of HK$311.2 million (the "**Second Note**"). Both the First Note and Second Note (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 while the option on the Second Note was not exercised before the expiration date. Interest of 3.5% per annum will be paid annually in arrears on 3 November for the First Note.

The First Note contains two components, a 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.

30. Convertible Notes *(Continued)*

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

	Liability component		Derivative component		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At beginning of the year	**2,592,235**	1,850,033	**106,178**	—	**2,698,413**	1,850,033
Initial recognition	**1,388,954**	570,814	**611,046**	177,981	**2,000,000**	748,795
Interest charge	**273,389**	323,711	**—**	—	**273,389**	323,711
Redemption of the Zero Coupon Convertible Note	**(2,000,000)**	—	**—**	—	**(2,000,000)**	—
Amortisation of transaction cost	**6,001**	3,001	**—**	—	**6,001**	3,001
Conversion of convertible note	**—**	(142,500)	**—**	—	**—**	(142,500)
Fair value gain on derivative component	**—**	—	**(432,016)**	(71,803)	**(432,016)**	(71,803)
Interest paid	**(27,113)**	(12,824)	**—**	—	**(27,113)**	(12,824)
At end of the year	**2,233,466**	2,592,235	**285,208**	106,178	**2,518,674**	2,698,413

Analysed for reporting purposes as:

	2012	2011
	HK$'000	HK$'000
Current liabilities (Note)	**12,310**	1,996,516
Non-current liabilities	**2,506,364**	701,897
	2,518,674	2,698,413

Note:

The amount represents coupon interest payable to the convertible note holders within one year.

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	**31 March 2012**
Stock price	HK$3.060	HK$1.570	**HK$0.65**
Exercise price	HK$4.000	HK$4.000	**HK$4.000**
Volatility (Note)	55%	92%	**110%**
Dividend yield	0%	0%	**0%**
Option life	3 years	2.44 years	**1.44 years**
Risk free rate	0.541%	0.857%	**0.18%**

Note:

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

30. Convertible Notes *(Continued)*

GI Convertible Note *(Continued)*

The fair value of GI Convertible Note with embedded derivatives were determined with reference to a valuation report carried out by an independent qualified professional valuer, on issue date at approximately HK$300,000,000. As at 31 March 2012, the liability component of the convertible note is HK$272,065,000 (2011: HK$251,904,000) and the fair value of the derivative component of the convertible note is HK$6,497,000 (2011: HK$23,799,000). No conversion was noted in 2012.

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	**31 March 2012**
Stock price	HK$2.910	HK$1.570	**HK$0.65**
Exercise price	HK$3.400	HK$3.400	**HK$3.140**
Volatility (Note)	88%	94%	**110%**
Dividend yield	0%	0%	**0%**
Option life	3 years	2.62 years	**1.624 years**
Risk free rate	0.603%	0.944%	**0.19%**

Note:

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

The fair value of OZ Convertible Note with embedded derivatives were determined with reference to a valuation report carried out by an independent qualified professional valuer, on issue date at approximately HK$466,800,000. As at 31 March 2012, the liability component of the convertible note is HK$396,326,000 (2011: HK$355,963,000) and the fair value of the derivative component of the convertible note is HK$19,773,000 (2011: HK$82,379,000). No conversion was noted in 2012.

3% CTF Convertible Note

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

	15 June 2011	**31 March 2012**
Stock price	HK$1.220	**HK$0.65**
Exercise price	HK$2.000	**HK$2.000**
Volatility (Note)	94%	**110%**
Dividend yield	0%	**0%**
Option life	3 years	**2.21 years**
Risk free rate	0.688%	**0.24%**

Note:

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

30. Convertible Notes *(Continued)*

3% CTF Convertible Note *(Continued)*

The fair value of the 3% CTF Convertible Note with embedded derivatives were determined with reference to a valuation report carried out by an independent qualified professional valuer, on issue date at approximately HK$2,000,000,000. As at 31 March 2012, the liability component of the convertible note is HK$1,565,075,000 and the fair value of the derivative component of the convertible note is HK$258,938,000. No conversion was noted in 2012.

31. Deferred Taxation

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

	HK$'000
At 1 April 2010 and 31 March 2011	—
Credit to consolidated income statement	**7,385**
At 31 March 2012	**7,385**

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 2012, estimated tax losses of the Group not utilised amounted to HK$251,839,000 (2011: HK$179,679,000). 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$154,669,000 (2011: HK$44,427,000) expiring within 5 years, the remaining balances have no expiry date.

At the end of the reporting period, the Group has deductible temporary differences of HK$689,260,000 (2011: HK$Nil) due to the impairment loss recognised on Khushuut mine related assets in current year. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

32. Share Capital

Authorised and issued share capital

	2012	2011
	HK$'000	HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.02 each	**300,000**	300,000

32. Share Capital *(Continued)*

	Number of ordinary shares at HK$0.02 each	**Amount**
		HK$'000
Issued and fully paid:		
At 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 and 1 April 2011	6,606,547,828	132,131
Issue of shares		
Placement of new shares (Note c)	**150,000,000**	**3,000**
At 31 March 2012	**6,756,547,828**	**135,131**

Notes:

(a) During the year ended 31 March 2011, share options to subscribe for 3,650,000 shares were exercised, of which HK$73,000 was credited to share capital and the balance of HK$11,661,000 was credited to the share premium account, raising proceeds of HK$8,047,000.

(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 shares was converted of which HK$10,000,000 was credited to share capital and the balance of HK$145,324,000 was credited to the share premium account.

(c) On 9 March 2012, the Company completed a placing of 150,000,000 shares at a subscription price of HK$0.80 per share. Net proceeds of the placement are approximately HK$117,500,000. These new shares rank pari passu in all respect with the existing shares.

33. Share-Based Payment

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 options.

33. Share-Based Payment *(Continued)*

Equity-settled share option scheme *(Continued)*

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

	2012 Weighted average exercise price per share HK$	2012 Number of share options	2011 Weighted average exercise price per share HK$	2011 Number of share options
Exercisable at beginning of the year	**3.6979**	**18,550,670**	2.7871	10,650,670
Granted	**0.81**	**55,500,000**	4.1100	11,800,000
Exercised	**—**	**—**	2.2047	(3,650,000)
Lapsed	**2.9776**	**(6,750,670)**	6.142	(250,000)
Exercisable at end of the year	**1.3886**	**67,300,000**	3.6979	18,550,670

No share options were exercised during the year. Options exercised during the year ended 31 March 2011 resulted in 3,650,000 ordinary shares being issued at the weighted average exercise price of HK$2.2047 each. The related weighted average share price at the time of exercise was HK$2.6601 per share.

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

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

Date of grant	Exercise price HK$	Exercisable period	Number of shares subject to options 2012	2011
1-3-2005	0.1695 (Note a and b)	1-3-2005 to 28-2-2012	**—**	670
2-2-2009	2.134 (Note b)	2-2-2009 to 1-2-2012	**—**	2,250,000
1-4-2009	2.358 (Note b)	1-4-2009 to 31-3-2011	**—**	500,000
13-8-2009	2.890 (Note b)	13-8-2009 to 12-8-2011	**—**	2,000,000
13-11-2009	4.170 (Note b)	13-11-2009 to 12-11-2011	**—**	2,000,000
9-4-2010	4.110	9-4-2010 to 8-4-2015	**11,800,000**	11,800,000
1-9-2011	0.810	1-9-2011 to 31-8-2014	**5,000,000**	—
29-2-2012	0.810	29-2-2012 to 28-2-2017	**50,500,000**	—
			67,300,000	18,550,670

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 during the year ended 31 March 2012.

33. Share-Based Payment *(Continued)*

Equity-settled share option scheme *(Continued)*

The fair values of options granted determined was as follow:

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

Note:

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

The Group recognised a total expense of HK$22,569,000 for the year ended 31 March 2012 (2011: HK$23,414,000) in relation to share options granted by the Company.

34. 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.

34. Disposal of Subsidiaries *(Continued)*

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.

35. Major Non-Cash Transaction

During the year ended 31 March 2012, a non-cash transaction has been taken place as follows:

On 15 June 2011, the Company redeemed the Zero Coupon Convertible Note by issuing a 3% CTF Convertible Note which has a three year maturity period from the issue date to 15 June 2014 and can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$2 convertible note. Interest of 3% per annum will be paid up until the settlement date. Further details are set out in Note 30.

36. 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 2012, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2012 HK$'000	2011 HK$'000
Not later than one year	15,598	13,029
Later than one year and not later than five years	13,050	15,889
	28,648	28,918

Operating leases related to offices and staff quarters with lease terms of between 1 to 5 years (2011: 1 to 5 years).

(b) Capital commitments

At 31 March 2012, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to approximately HK$99,450,000 (2011: HK$370,762,000). These commitments are for the following projects:

	2012 HK$'000	2011 HK$'000
Road construction (Note 18)	28,830	240,843
Road improvement and drilling equipment transport (Note 19)	10,743	34,455
Exploration drilling (Note 19)	21,637	30,087
Water exploration	—	18,976
Rotary breaker	205	10,374
Mine design	491	472
Coal processing plant design	—	1,059
Custom facility design	872	1,018
Power plant design	786	781
Other exploration related commitments	526	32,697
Purchase of property, plant and equipment	35,360	—
	99,450	370,762

37. Financial Information of the Company

	2012 HK$'000	2011 HK$'000
Total assets	**11,546,134**	15,924,587
Total liabilities	**(3,255,897)**	(3,293,453)
Net assets	**8,290,237**	12,631,134
Financed by:		
Capital and reserves attributable to owners of the Company		
Share capital	**135,131**	132,131
Reserves	**8,155,106**	12,499,003
	8,290,237	12,631,134

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 2010	9,306,803	199,594	4,184,166	19,741	(911,798)	12,798,506
Loss for the year	—	—	—	—	(476,215)	(476,215)
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 and 1 April 2011	12,993,006	199,594	654,948	39,468	(1,388,013)	12,499,003
Loss for the year	**—**	**—**	**—**	**—**	**(4,480,966)**	**(4,480,966)**
Equity-settled share-based payments	**—**	**—**	**—**	**22,569**	**—**	**22,569**
Conversion options unexercised at expiry date (Note 30)	**—**	**—**	**(654,948)**	**—**	**654,948**	**—**
Issue of shares						
Placement of new shares	**114,500**	**—**	**—**	**—**	**—**	**114,500**
Balance at 31 March 2012	**13,107,506**	**199,594**	**—**	**62,037**	**(5,214,031)**	**8,155,106**

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.

38. Related Party Transactions

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

(a) Services rendered by

	2012 HK$'000	2011 HK$'000
Associates	—	312

(b) Advances from Mr. Lo

	2012 HK$'000	2011 HK$'000
Balance of advances	479,548	42,184
Interest paid/payable	18,064	1,677

Note:

The Advances are related to the facility granted from Mr. Lo as set out in Note 1. The amounts are unsecured and repayable on demand. The interest expense was charged at the prevailing prime rate per annum quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time.

(c) Interest on convertible note payable to a related party — Golden Infinity Co., Ltd.

	2012 HK$'000	2011 HK$'000
Interest expense	10,715	6,014

Note:

Mr. Lo has a controlling interest of this Company. Details of the convertible note are set out in Note 30.

38. Related Party Transactions *(Continued)*

(d) Key management compensation

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

	2012 HK$'000	2011 HK$'000
Basic salaries, other allowances and benefits in kind	**15,752**	17,111
Equity-settled share-based payments (Note)	**14,107**	20,834
Contributions to MPF Scheme	**48**	60
	29,907	38,005

Note:

During the year ended 31 March 2012, 35,000,000 share options were granted to the Group's key management (2011: 8,500,000). Such options were immediately vested on date of grant. The fair values of the total options determined at the date of grant were using the Binomial Valuation model.

39. Particulars of Principal Subsidiaries

Details of the Group's principal subsidiaries at 31 March 2012 and 2011:

Name of subsidiaries	Place of incorporation	Particulars of issued share capital	Effective interest held 2012	Effective interest held 2011	Principal activities
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	1 share 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*

39. Particulars of Principal Subsidiaries *(Continued)*

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.

40. 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				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover					
Continuing operations	29,952	9,076	—	—	**6,215**
Discontinued operation	—	2,005	2,392	—	**—**
Profit(loss) attributable to owners of the Company	74,400	(438,387)	(317,405)	(310,750)	**(4,832,172)**
Earnings(loss) per share (HK cents)					
— Basic	23.32	(7.25)	(5.22)	(5.02)	**(73.04)**
— Diluted	23.31	(7.25)	(5.22)	(5.02)	**(73.04)**

	Assets and liabilities of the Group at March 31				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	14,218,207	15,047,269	15,169,958	15,907,265	**11,543,781**
Less: total liabilities	(1,123,085)	(1,787,976)	(2,020,980)	(2,833,106)	**(3,198,467)**
Total net assets	13,095,122	13,259,293	13,148,978	13,074,159	**8,345,314**

Corporate Information

Directors

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

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
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Registered Office

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http://www.mongolia-energy.com

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.

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