MEC
MONGOLIA ENERGY CORPORATION
蒙 古 能 源 有 限 公 司

Incorporated in Bermuda with limited liability
Stock Code : 276

ANNUAL REPORT 2013

• ENERGY • RESOURCES • DEVELOPER

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

CONTENTS

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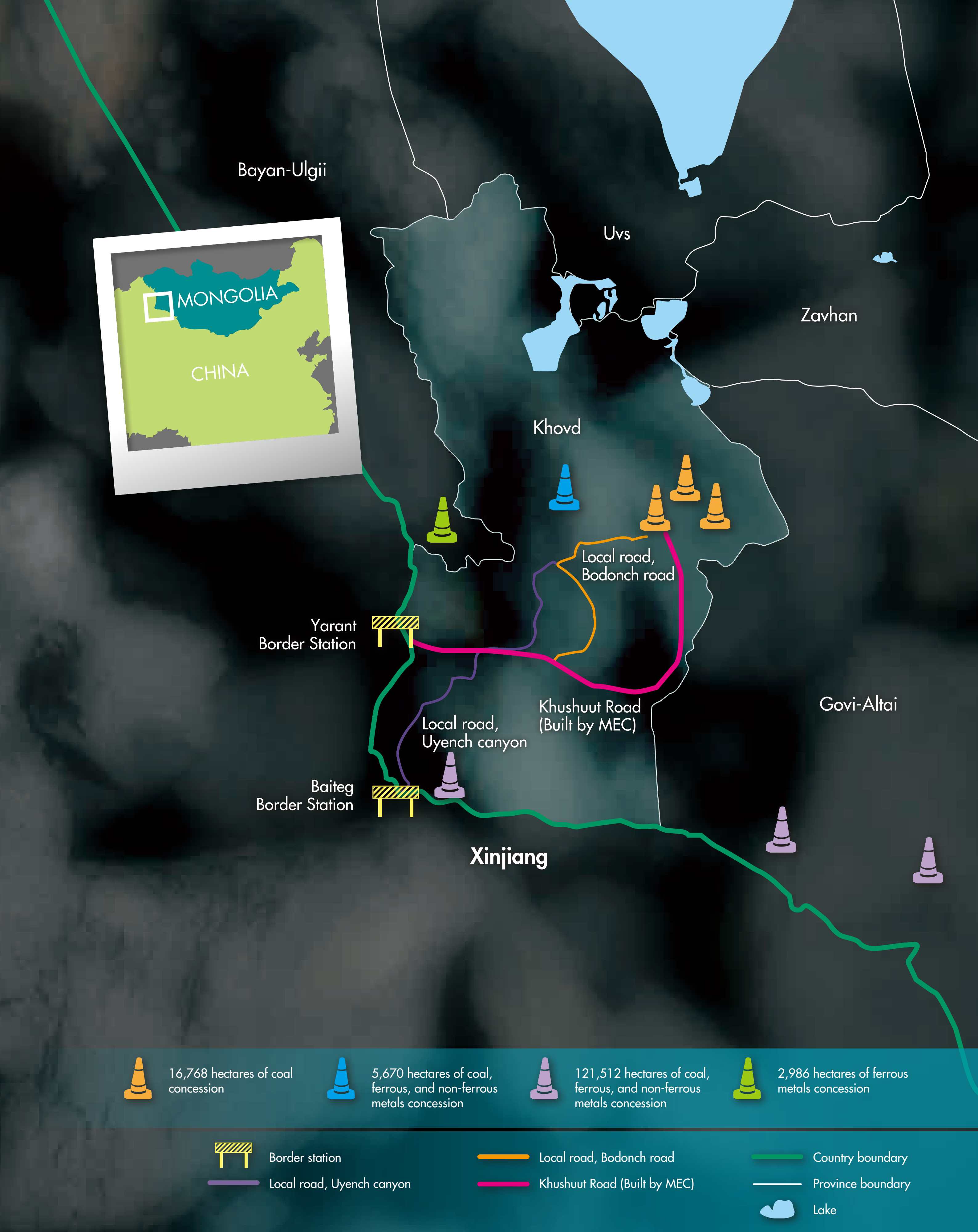
This Report contains certain forward-looking statements and opinions with respect to the operations and businesses of MEC. These forward-looking statements and opinions relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations, and estimates and are generally 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 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, announcements, and reports 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 do not materialize or turn 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 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 151,449 hectares for coal, ferrous, and non-ferrous metal resources in Western Mongolia including at Khushuut, Gants Mod, Olon Bulag, Govi-Altai, and Bayan-Ulgii.



** Exploration Licence with an area of 4,513 hectares is not shown in this map.*

Chairman's Statement

Dear Shareholders,

The year of 2012–13 was a challenging year for the Group. We expected a gradual and consistent ramp up in coking coal production and shipments to our customers after the completion and commissioning of the long awaited Khushuut Road. However, the softening of the coking coal market in the People's Republic of China ("**China**"), the political climate in Mongolia, the dispute with Leighton, and the unexpected technical issues on quality control had all impacted us from progressing as planned.

One of the crucial factors affecting our short term prospect is the fall of the coking coal demand and coal price in China. 2012 was marked by global economic uncertainties. This had an adverse impact on the economy and continued development of China. Demand of coking coal in China fell due to decrease in steel production as a result of its economy. As the supply of domestic coking coal was greater than the demand, this drove the prices of coking coal down to a certain extent. In the short term, coking coal prices has been affected by the performance of the global economic conditions. We are, however, optimistic that China's upcoming infrastructure projects will stimulate steel production which in turn will boost the demand of coking coal in the steel manufacturing process.

As all of you may aware, the investment environment in Mongolia has become more complicated in recent years. Since 2009, the Mongolian government has passed several laws such as the Mining Prohibition Law, Foreign Investment Law, and the recent Strategic Deposits policy. The General Election in June 2012 has resulted in the changeover of the long term Mongolia's People's Party to the Democratic Party. Starting from mid 2012, the new Mongolian government led by the Democratic Party adopted a more conservative foreign mining investment approach compared to that of its predecessor. These changes have restricted and rattled the confidence of foreign investors in Mongolia, and in turn impacted our strategy and development approach in Mongolia.

Internally, the legal disputes with Leighton continue. In addition, the technical issues we are facing could be an impediment to our development. As it is our aim to provide quality assurance to our customers, our primary focus is to solve the issues as soon as possible. A number of measures have been taken. Among them are establishing a strong in-house professional technical mining team, sourcing a new competent and experienced mining contractor, and installing the Dry Coal Processing System at the Khushuut Coal Mine. The Dry Processing Plant will help us reduce waste rocks from our mining works prior to shipments and thus, lower transportation costs before the completion of the washing facilities. Furthermore, in order to ensure the coal quality shipped to our customers remains high and stable, we have also upgraded our on-site laboratory to effectively identify the coal quality. Our Washing Plant Project in Xinjiang is also underway.

Parallel with our infrastructures, we have set up a Coal Quality Management System for the Khushuut Coal Mine. In respect of coal extraction contractor, we have identified a qualified contractor and are currently in discussion of the commercial terms with this new mining contractor. We hope to finalize this process in the second half of this year and these measures can bring us back to the right track again within a short period of time.

As we have done in the past winters, we provided domestic coal to the local villagers during the 2012 winter. The local government and the villagers have always been supporting for the Khushuut Coking Coal Project, and we are dedicated to assist them during the cold and snowy winter as a responsible corporate citizen. In addition to establish a close relationship with the local people and the new local government, we will continue to provide local employments and support local development and growth through establishing cooperative agreements with the local government bodies.

Despite the stalled economy, Mongolia remains promising in the supply of coking coal to China. In 2012, Mongolia claimed the position as China's top coking coal supplier with 19.06 million tonnes of exports[1]. As such, we believe we are still able to reap the benefits for supplying our coking coal products to China once our interim issues are effectively addressed.

Our investments in Mongolia began in 2007 and we have not only invested substantially for our projects with the aim of returns for our faithful shareholders, but have also created vast employment opportunities and contributed to the local communities as a good corporate citizen. While our determination to continue our efforts in Mongolia remains, we will exercise an extreme caution in our expenditures in Mongolia, subject to the investment climate there. I am optimistic that the Mongolian government will make the right moves to encourage international investments in Mongolia.

During this period, I would like to express my sincere gratitude to all our dedicated colleagues, in particular, technical staff, for their persistent and enthusiastic efforts in rectifying our issues. Despite the obstacles we are currently facing, with the support from all our colleagues and business partners, I have confidence that we will continue forging ahead with our development in Western Mongolia. We look forward to your continuous support in the years to come.

Lo Lin Shing, Simon
Chairman

28 June 2013

1. *Source: China Coal Resource*

Management Discussion and Analysis

OVERVIEW

Our principal project is the Khushuut Coking Coal Project 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 2013 (the "**Financial Year**"), our commercial coal production of the Group came to a halt as a result of the retreat of Leighton and handover of the management of the Khushuut Coal Mine to us in October 2012, as well as the coal screening and quality issues.

RESULTS ANALYSIS

Revenue

The Group sold 50,350 tonnes of raw coal to our customers in Xinjiang, China, and Mongolia and generated HK$11.8 million (2012: HK$6.2 million) in revenue during the Financial Year with an average selling price of HK$234 per tonne (2012: HK$357 per tonne). For the raw coal shipped in the previous financial year, the washed results failed to meet the contract specifications, thus triggering downward adjustment to the contract price. The adjustment in revenue of HK$0.8 million was reflected in the Financial Year. The disappointing result was attributable to (i) the temporary halt of commercial coking coal production since September 2012 due to the retreat of the sole mining contractor of our Khushuut Coal Mine; and (ii) inadequate screening capability at site.

Cost of Sales

The cost of sales was HK$261.9 million (2012: HK$100.6 million). The cost of sales was exceptionally high due to the mining activities during the Financial Year failed to produce raw coal at optimum capacity. A total of HK$90.3 million contractor fee was paid/payable to the sole mining contractor despite the unsatisfactory production progress. The Group disputed the amount charged and the services provided by this mining contractor and refused to settle the contractor fee. For details, please refer to Note 37 to the consolidated financial statements.

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

An impairment loss of HK$3.1 billion (2012: HK$4.6 billion) was made in this Financial Year in respect of the Mine Assets. This impairment loss is non-cash in nature and will not affect our liquidity, cash flows or debt covenants, nor will it have any impact on future operations.

An impairment analysis with the assistance of an independent valuer was undertaken and an updated mine life projection was prepared. The mine life projection reflected the prevailing economic situations, market conditions, and best estimations on the future development of the Khushuut Coal Mine made by the management.

The valuation has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Company. The independent valuer adopted a value in use calculation to obtain the fair value of the Khushuut Coal Mine as at 31 March 2013. The value in use calculation focuses on the economic benefits due to the income producing capability of the mineral assets. The underlying theory of this approach is that the value of the mineral assets can be measured by the present worth of the economic benefits to be received over the useful life of the mineral assets. Based on this value in use model, the income-based approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits. The factors taken into account in arriving the future economic benefits, include, among others, (a) the selling prices and quantity of existing and future coal products; (b) existing and projected cost of revenue including mining costs (including but not limited to extraction costs, blasting costs, labour costs, and fuel costs, etc.), transportation costs, and others; (c) existing and projected selling and administrative expenses; and (d) capital expenditures (including but not limited to the Washing Plant in Xinjiang and the Dry Processing Plant in Mongolia). The major differences comparing to valuation as at 31 March 2012 were:

(i) The discount rate was 17.6% (2012: 18.71%). The decrease in 31 March 2013 was due to the update of the latest market data in arriving at the appropriate discount rate;

(ii) Estimated current selling price for washed product at around US$165/tonne for valuation as at 31 March 2013 (31 March 2012: washed product at US$190/tonne). The decrease in the estimated selling prices was a reflection of the prevailing market trend in China;

(iii) Estimated mining costs were revised based on latest information from shortlisted potential mining contractors to reflect the appointment of a new mine contractor; and

(iv) Housekeeping changes to the cash flow pattern in order to tally the temporary suspension in coal extraction.

As the recoverable amount of the Mine Assets determined by the independent valuer was significantly lower than their carrying value, an impairment loss amounted to HK$3.1 billion was recognized against the respective assets on a pro-rata basis.

The Company believes that the estimates/assumptions applied in the assessment of recoverable amount by the independent valuer are reasonable. However, these 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 period.

Fair Value Gain on Derivative Component of Convertible Notes

At the end of the Financial Year, we had the following outstanding convertible notes: (i) HK$2 billion 3-year 3% coupon convertible note; (ii) HK$300 million 3-year 3.5% convertible note; (iii) HK$466.8 million 3-year 3.5% convertible notes; and (iv) HK$400 million 5% convertible notes. The derivative components of these convertible notes were initially recorded at fair value at their respective issue dates and re-measured at the end of each reporting period. The resulting gain in fair values amounting to HK$303.0 million were then recognized through the consolidated income statement (2012: HK$432.0 million).

Finance Costs

The increase in finance costs was due to the increase in interest expense on convertible notes and no capitalization of finance costs to development in progress (2012: HK$44.4 million was capitalized).

BUSINESS REVIEW

Khushuut Coking Coal Project

Khushuut Coal Resources

Our JORC in-place resources remain the same as last year; i.e. approximately 141,456,000 tonnes (44,503,000 tonnes measured resources and 96,953,000 tonnes indicated resources). The quality of the Khushuut coal is low volatile, low sulfur, with widely variable caking properties.

	In-Place Tonnes ('000)		
Resources Estimate	**Coal**	**Parting**	**Seam**
Up to 31 March 2013	141,456	Not estimated	Not Estimated

As set out in the Report by John T. Boyd Company, the resource estimation of the Khushuut Coal Mine is based on "reasonable prospects for eventual economic extraction" by using the following parameters:

(a) Open-pit mining method;

(b) Maximum mining depth of 400 meters;

(c) Raw coal density as determined from the analytical data. The average density for the B and C seams is 1.45;

(d) Minimum mineable seam height of 1.5 meters; and

(e) Coal estimates are on raw coal basis, which include all coal and partings less than 0.1 meter, non-coal parting measuring of 0.3 meter or less are mined with coal.

Operation

The Company was under a very difficult operating environment during the Financial Year. Although the Khushuut Road was commissioned by the end of December 2011, our commercial coal production did not ramp up in 2012 as scheduled due to a number of unexpected setbacks. Against this background, the sales results of our coking coal during the Financial Year were far from satisfactory. The main attributing factors were as follows:

(a) the sluggish coal market performance in the People's Republic of China (the "**PRC**") affected by the gloomy global economy in 2012;

(b) the change in political climate affected our strategies and developments in Mongolia;

(c) the temporary halt of commercial coking coal production since September 2012 due to our dispute with Leighton regarding the quality of its services and its retreat and handover of the management of the Khushuut Coal Mine to us; and

(d) the operation technical issues faced by the Group.

The conditions of the coal market in China continued to be affected by the global economy in 2012. As a result of the world's gloomy economic performance, the demand of coking coal in China fell sharply and the supply of domestic coking coal exceeded its demand during the Financial Year. Many miners lowered their coking coal offer prices in an attempt to stimulate sales amid sluggish demand from downstream coke and steel makers, and this invariably drove the market price of coking coal down, making our short term prospect more difficult.

Starting from mid 2012, the new Mongolian government led by the Democratic Party adopted a more conservative foreign mining investment approach compared to that of its predecessor. This change, together with more tightened and restrictive laws and policies on the mining sector, deeply impacted development in Mongolia during the Financial Year.

The retreat of Leighton as our mine contractor and our dispute with Leighton will be discussed in details under the paragraph of "Dispute with Leighton" below.

In respect of our operation technical issues, as disclosed previously, we are required to improve our coal screening capability on-site; otherwise, any continued production of coking coal products for export will not be meaningful as this will unjustifiably increase our operation costs in the production and transportation process, and may negatively impact our reputation for shipping out inferior quality of coking coal. To address this issue, we are installing a dry coal processing system on the Khushuut Coal Mine for improvement of our coal screening capability as an immediate measure. Apart from the Dry Coal Processing System, our coal Washing Plant Project in Xinjiang is also underway.

Apart from improving our infrastructures, we have set up a Coal Quality Management System (CQMS) for the Khushuut Coal Mine. We consider this an indispensable management program for marketing our products to a quality level to our customers in Xinjiang. During the Financial Year, we had adopted the following:

1) Management procedures and methods of CQMS: we have worked out a coal quality control scheme from sample collection, sample preparation to laboratory analysis on the basis of Chinese GB Standards of coal quality. In addition, we have consulted some well-known experts in Chinese coking coal industry for their opinion and advice about CQMS of the Khushuut Coal Mine.

2) Qualified technical personnel: we have hired experienced manager and technicians to operate the Khushuut laboratory in Chinese GB Standards of coal quality, and a CQMS manager who will be fully in charge of building and implementing the management procedures and methods of coal quality.

3) Upgrading the resource quality control: we have completed the Production Exploration Drilling Program, in total advance of 2,160 meters and 47 drilled holes, in order to upgrade the resource model from the previous resource inventory to mining compatibility. We believe the new drilling results will significantly improve the production quality in the mining pads.

During the Financial Year, MoEnCo LLC ("**MoEnCo**"), our indirect wholly owned operating subsidiary in Mongolia, received a letter in December 2012 from the Mining Ministry of Mongolia for requesting information of the Khushuut Coal Mine for assessment of whether to place the Khushuut Coal Mine into the list of deposits of strategic importance in Mongolia ("**Strategic Deposits**"). The working committee of the Mining Ministry required certain information from MoEnCo for assessment of this issue including, among others, (i) business and mining activities of the Khushuut Coal Mine; (ii) information of geological exploration works performed by private investment and state budget; (iii) mineral resources information issued by the state authorities; (iv) information on geological research works and report on the mine site; and (v) the co-operation contracts between with state authorities and local governments. After we duly submitted the requested information to the Mongolian government for consideration, it came to our knowledge the Mongolian government proposed to place our Khushuut Coal Mine in the Strategic Deposit list for consideration by the Mongolian Parliament, and according to the best of our knowledge, no time table has been provided.

After the departure of Leighton and the issues mentioned above, the mining operation at the Khushuut Coal Mine was operated in a small scale during the Financial Year such as performing the overburden removal, providing domestic coal to the local community and other preparation works to prepare for our resumption of commercial coal production at suitable time. MoEnCo hired the excavators, dozers, loaders, and other necessary equipment from the equipment providers and operated them through MoEnCo's own operation team on-site of the Khushuut Coal Mine.

Mine Infrastructure and Equipment

The Dry Processing Plant Project

Apart from the Washing Plant Project, and as part of the solutions to address coal selection issues, MoEnCo has placed orders to purchase a dry coal processing system to be installed in the Khushuut Mine Site. The system is suitable for coal mine with restriction on the source of water supply and it will enhance our coal quality in the coal treatment process.

The foundation works of the Dry Coal Processing System was completed in the middle of January 2013. After that MoEnCo was waiting for the evaluation results on the structural integrity of the foundation works before proceeding to install the Dry Coal Processing System on the Khushuut Coal Mine. The majority of the Dry Coal Processing System construction parts arrived at the Khushuut Coal Mine at the end of March 2013. Physical installation of the Dry Processing Plant was then commenced.

Concrete retaining walls for the Dry Processing Plant were required to be built. The contractor commenced the construction work in early April.

During the construction process, there have been no safety incidents on the Dry Processing Plant site. Trainings on the Dry Processing Plant including principles of processing; safety; structure of the Dry Processing Plant; operation; maintenance; general understanding of the electrical controls; and dust extraction system have been provided to the operating personnel of MoEnCo, and the trainings will be ongoing as new recruits are employed.

Up to the date of this Report, the civil construction works have been completed and the installation of the major components of the Dry Processing Plant is almost complete, pending some of outstanding parts and materials to complete the installation. The Company anticipates that the installation of the Dry Processing Plant and its ancillary works will be completed within the third quarter of this year.

Mongolian government commissioning process is expected to commence after the successful installation. We have already started all preparation works for this application. However, this process is expected to be complicated and may take one to three months.

Xinjiang Washing Plant Project

As previously reported, the separation of coal from undesired materials and the coal screening process are the technical issues we are facing in our operation. These factors not only increase costs to our coal haulage, processing and storage, but also affect our product quality and productivity. The Dry Coal Processing System is a device which can lower the undesired and unwanted materials to a certain extent before transportation; however, a washing plant is still necessary to process clean coal for selling to end customers. We are planning to construct a washing plant in Xinjiang prior to a permanent location of stable source of water supply in the vicinity of the Khushuut Coal Mine is identified and approved by the Mongolian government.

Before setting up a washing plant in Xinjiang, and as an immediate measure, we co-operate with a coal trading company having a washing facility in Xinjiang with a view to processing our raw coking coal sitting in the Xinjiang Takeshenken re-handling yard and from the continuous supply from the mine site. As a result of a number of factors mentioned above such as the sluggish coking coal market condition and the Dry Processing Plant has yet been ready for operation, the co-operation between us and this Xinjiang coal trading company has not been satisfactory so far.

As for the Washing Plant Project, the land for the proposed Washing Plant is located at 新疆維吾爾自治區青河邊境經濟合作區工業園 (Xinjiang Uygur Autonomous Region Qing He Border Economic Co-operative Industrial Zone) with an approximate area of 200,104 square meters. The total land premium is RMB12 million.

The Washing Plant equipment selection process and the placing of the purchase orders for the equipment have been completed.

The civil construction of the Washing Plant is divided into two parts: (i) the first part is the construction of the main plant district; and (ii) the other part is the construction of the living district. We have identified and entered into contract with the suitable contractor for the first part of the civil construction works.

We have commenced the construction works for the coal re-handling yard on the site of the Washing Plant and are targeting to complete at the second half of 2013.

Customers and Sales

We co-operate with a coal trading company to look for potential customers in the Xinjiang market. As a result of our temporary halt of commercial coal production and the continued softening of the coking coal market conditions in the PRC, we did not actively market for new customers during the Financial Year.

Khushuut Licences

As disclosed in our previous reporting, we have several mining and exploration licences which might be affected by the Law of Mongolia on the Prohibition of Minerals Exploration and Mining in Headwater Areas, Protected Zones for Water Reserves and Forest Lands (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. However, we were informed that some of our licences have been overlapping with the watershed and forestry areas under the MPL as defined by its Resolution 194.

According to our Mongolian legal advisers, an overlapping area may be removed and the affected licence will 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 Ministry of Environment and Green Development ("**MEGD**"), we only have two mining licences with slight overlapping areas with the water basin protected zones under the MPL. If these overlapping areas are resumed by the Mongolian government under the MPL, based on our review and opinion by our independent technical adviser, they will not have a material effect on our Khushuut resources and operation.

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

Selection of Coal Extraction Contractor

As a result of the dispute between MoEnCo and Leighton, Leighton retreated and handed over the management of the Khushuut Coal Mine to us in October 2012.

Following the retreat of Leighton, MoEnCo invited tenders from other contractors in Mongolia for the provision of coal extraction services at the Khushuut Coal Mine. MoEnCo has since then gone through the process for selecting the most suitable coal contractor to replace Leighton. The MoEnCo team has already identified one contractor and is in discussion with this contractor on the commercial terms.

In order to ensure the coal products produced are able to meet the desired quality in response to the Xinjiang market, it is the intention of MoEnCo to exert tight control on the whole mining process by formulating its own mining and production plans; to perform core sampling drilling to ascertain the correct locations and quality of coal to be mined; to design the drill and blast areas and mining boundaries; to determine the locations for removal of overburden and coal extraction; to conduct daily face surveys; and to manage the on-site lab and samples analysis for ensuring production of the right quantity and quality of coal. This is subject to the final conclusion of the mining contract between MoEnCo and the potential contractor. The resumption of commercial coking coal extraction works will also depend on the progress of our current infrastructure and the market condition.

Support from the Local Governments for Our Project

We entered into co-operation agreements with the local soums to enhance co-operation between us and the local governments, and to provide successful implementation of our projects and investments planned by us. In return, we are required to support their vocational training and education of unemployed people, to establish a fund for local support and to provide coal needs and job opportunities for the local people.

As we have several co-operation agreements with different soums, discussion commenced in September 2012 between Khovd Province and our MoEnCo community development group to replace the existing co-operation agreements. The intention is to develop a single co-operation agreement with Khovd Province which includes substantial development, rehabilitation planning as well as enhancing the social responsibility of all parties.

Village Relocation Project

There are certain villagers and herders living in the vicinity of our Khushuut Mine Site and this causes health and safety concerns by our operation. We have an agreement with the local government to help relocate these villagers to other locations away from our operational zone.

During the province 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.

This year the village relocation project has achieved a substantial milestone. The general plan of the new village center has been approved by the province civil representative meeting after satisfying and passing all the required approvals.

Exploration Activities

Licences

MoEnCo used to have twenty mining and exploration licences, with total concession areas of approximately 330,000 hectares during the financial year of 2011–12.

Due to no development potential of some of the concession areas determined by the geologists of the Group, exploration licence 7460X (located at Olon Bulag with 276 hectares which expired on May 2013) and exploration licence 8976X (located at Gants Mod with 26,014 hectares which would be expired on December 2013) had been returned to the Mongolian government early this year in order to save annual exploration and administrative costs.

As some of the areas of exploration licence 11719X (originally located at Govi-Altai with 216,644 hectares) are covered by quaternary sediments not suitable for mining, it has been reduced into two new licences of smaller areas, namely 11719X (with approximately 48,254 hectares) and 17277X (with approximately 28,585 hectares).

Similar to exploration licence 11719X, the area of exploration licence 11515X located at Khushuut, Khovd has been reduced from 31,725 hectares to approximately 14,113 hectares.

According to the enquiry conducted by our Mongolian advisers, MoEnCo currently has ten mining licences and nine exploration licences in Western Mongolia, including Khushuut, Gants Mod, Olon Bulag, Govi-Altai, Bayan-Ulgii, and Khuvsgul. The areas covered by the licences are approximately 151,449 hectares. Three of the mining licences (2913A, 11889A and 11890A) have been suspended by the Mongolian authority. The suspension of these licences does not have any material impact on our asset value and operation.

Pursuant to our costs cutting policy in response to the current market condition, only minimal exploration works were conducted during the Financial Year. In 2013, our exploration expenditures will be maintained at a low level which is sufficient to protect and maintain our existing licences.

Please refer to the table under the paragraph of "Exploration and Mining Concessions of the Groups" for further details of our exploration and mining licences.

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.

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, 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 meters 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.

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 5 June 2012, the government of Mongolia adopted Resolution 194, under which the boundaries for headwater areas, water reserve protected zones, and forested lands were determined and set. Our Mongolian legal advisers are of the view that the coordinates and the boundaries are now final. However, it is yet to see full implementation of the MPL and to the best of our knowledge MRAM has not revoked any licences or any part thereof, with the exception of mineral licences covered by Resolution 174 (alluvial gold deposits).

The MPL may potentially revoke those licence areas which are currently set out as water basins, water basin protection zones 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.

Strategic Deposits

MoEnCo received a letter in December 2012 from the Mining Ministry of Mongolia for requesting information of its Khushuut Coal Mine for assessment of placing the Khushuut Coal Mine into the list of Strategic Deposits.

The Minerals Law states that a mineral deposit is of strategic importance if a deposit may have a potential impact on national security, economic and/or social development of the country at regional and/or national levels, or that is capable of producing greater than 5% of the gross domestic product of any given year. Under the said Minerals Law, the size of the government participation is determined largely by the level of state funding which had been provided for the exploration and development of any deposit, with the government of Mongolia entitled to participate up to 50% in the event that there has been a state funding of such deposit and up to 34% if such deposit was discovered with private funds. In the event a Strategic Deposit is ruled, the Mongolian government will negotiate with the entity concerned as to the mode or percentage of the government's participation and it will depend on the results of individual negotiations. In worst case scenario, if the Khushuut Coal Mine is ruled as a Strategic Deposit, the State of Mongolia may negotiate for up to 50% of its interest.

Further, even if the Khushuut Coal Mine is designated as a Strategic Deposit by the Parliament of Mongolia, such designation will not automatically grant the government to participate into the Mine or allot any shares of MoEnCo to the government, and the government will need to discuss with MoEnCo for the terms of the arrangement.

After the receipt of the letter from the Mining Ministry of Mongolia for requesting information of the Khushuut Coal Mine for the Strategic Deposit assessment, MoEnCo has duly submitted the requested information to the Mongolian government for consideration.

It came to our knowledge in June 2013 that the Mongolian government has proposed to include the Khushuut Coal Mine in the list of Strategic Deposits for consideration by the Parliament of Mongolia. The Minerals Law does not specify a timeframe in which the government must submit the proposal to the Parliament of Mongolia, and to the best of our knowledge, no time table has been given in this regard. Whether and when the Khushuut Coal Mine will be ruled as a Strategic Deposit is not known for the time being as the Parliament of Mongolia makes the final decision.

As we believe we do not fit within the selection criteria outlined by the Minerals Law, in our submission made to the Mongolian government, we have strongly objected our Khushuut Coal Mine to be put in the Strategic Deposit list. We have further drawn the government's attention that we have invested substantially on the development of the Khushuut Coal Mine and any negative ruling on us under this issue may have impact on investors' confidence in Mongolia. Since then, we have not received any direct feedback from the Mongolian government on the matter. As the proposal has to be decided by the Parliament of Mongolia, we believe that the Mongolian Parliament will take into account each and every factor in reaching its decision. The extent of the impact to the Group cannot be ascertained at this stage subject to the decision of the Mongolian Parliament. We will keep the shareholders informed of the developments.

Dispute with Leighton

The dispute between the Group and Leighton arises out of, among others, the invoices amount charged by Leighton on MoEnCo and the quality services rendered by Leighton. As such, the Group refuses to settle the contractor's fees as claimed by Leighton.

MoEnCo received a First Notice on 10 September 2012 under the mining agreement from Leighton demanding payment of the outstanding contractor's fees together with a notice of suspension of the contractor's works at the Khushuut Coal Mine and a warning of termination of the relevant mining agreement between MoEnCo and Leighton for the Khushuut Coal Mine. According to the said notice, and as alleged by Leighton to be outstanding and due by MoEnCo, the sum demanded was in the aggregate sum of MNT16,961,875,197 (approximately HK$91,724,784) (MNT12,162,710,117 invoiced amount and estimated amount of MNT4,799,165,080 up to the date of the said Notice).

On 9 October 2012, the Company received a statutory demand under the Hong Kong Companies Ordinance from Leighton for the sum of MNT14,798,549,342 (approximately HK$80,026,160). Leighton alleged that this sum is payable by the Company on behalf of MoEnCo in the Company's capacity as guarantor under the Khushuut Coal Mine mining agreement. The Company has instructed legal advisers to contest the demand and to handle all other legal issues arising with Leighton in connection with the dispute, including failings on the part of Leighton to meet the scope of services provided under the mining agreement.

Leighton suspended its services in September 2012, gradually demobilised its plant and equipment, dismissed its workers and completed the handover of the Khushuut Coal Mine to MoEnCo in October.

A writ of summons (the "**1st Writ**") was issued in the Court of First Instance of the High Court of Hong Kong by Leighton against the Company and it was served on the Company by Leighton's legal adviser on 14 February 2013. Under the 1st Writ, Leighton claims for MNT12,162,710,117 (Mongolian Tugrik) (approximately HK$65,686,673) against the Company, or alternatively damages for breach of contract by the Company, as surety under a written contract of guarantee made on 2 June 2010, together with interest and costs.

Subsequent to the issue of the 1st Writ, Leighton applied for the case to be heard by way of Summary Application under Orders 14 to the Rules of the High Court. The Company filed its opposition and a date for said hearing was fixed to be heard on 10 July 2013. The Company instructed its legal advisers to oppose Leighton's claims in the said hearing.

Apart from the 1st Writ, Leighton served another writ of summons on the Company claiming for a sum of MNT7,723,952,999 (approximately HK$41,714,450) in May 2013, allegedly for the contractor's fees incurred from September 2012 up to December 2012. The Company disputes and will vigorously contest the claims and take all steps as appropriate to defend the proceedings.

The Company will keep the shareholders of the Company and public investors informed of any further material developments in connection with the above action as and when appropriate.

Others

After the Financial Year, the Company entered into agreements with an independent third party purchaser for the disposal of the property situated at Beijing at a consideration of RMB100,000,000. The property is a residential building which was an investment of the Group. The proceeds of approximately HK$124,900,000 from the disposal of the property will be applied towards repayment of existing loans and/or for use as general working capital of the Group.

FINANCIAL REVIEW

1. Liquidity and Financial Resources

During the Financial Year, the Group's capital expenditure and working capital were mainly funded by (1) short term loans granted by Mr. Lo Lin Shing, Simon, chairman of the Company; (2) on 9 January 2013, the Company issued a 5% convertible note to each of Golden Infinity Co., Ltd. and Chow Tai Fook Nominee Limited with principal amount of HK$200 million and in aggregate of HK$400 million at a conversion price of HK$0.36 per share; and (3) a short term unsecured loan with principal amount of HK$50 million and repayable within 1 year.

The borrowings of the Group as at 31 March 2013 comprised convertible notes, advances from a Director, and a short term loan amounting to HK$3,469.5 million (2012: HK$2,998.2 million). The effective interest rates of these borrowings were in the range from 5% to 18.22%. Of the total borrowings, 36.4% of the total borrowings (2012: 16.4%) was repayable within 1 year and the rest was repayable within 2 to 3 years.

At the end of the Financial Year, the cash and bank balances were HK$51.8 million (2012: HK$85.0 million).

The liquidity ratio as at 31 March 2013 was 0.07 (2012: 0.26).

The Group incurred a loss for the Financial Year of HK$3,698.8 million (2012: HK$4,832.1 million) primarily due to significant costs associated with the start up and operation of Khushuut Coal Mine and impairment loss on the Mine Assets. As at 31 March 2013, the Group's current liabilities exceeded its current assets by approximately HK$1,376.5 million (2012: HK$509.8 million). The Group's liquidity position continues to decline as compared to the previous financial year. The Group has initiated measures to reduce costs and will continue to explore various alternatives to address our liquidity issues. These measures and alternatives include but not limited to (i) reducing the costs of various inputs and services by renegotiating the terms of supply and service agreements; (ii) arranging new financial support from existing lenders; and (iii) disposal of non-core assets. During the Financial Year, the Group had issued a HK$400 million 3-year 5% convertible note. After the Financial Year, the Company entered into agreements to dispose of a Beijing property and its associated facilities at the consideration of approximately HK$124.9 million. However, there can be no assurance that the Company will be successful in achieving any of these objectives continuously to address the Group's liquidity issues. If the Company is unable to seek new funding, or is unable to generate sufficient liquidity from its operations to satisfy its obligations, it may have a material adverse effect on our liquidity and may impair the Group's ability to continue as a going concern.

2. Investment in Listed Securities

As at 31 March 2013, the Group's held-for-trading investments comprised of equity securities listed in Hong Kong with a fair value of HK$26.5 million (2012: HK$27.2 million).

3. Charge on Group's Assets

There was no charge on the Group's assets as at 31 March 2013 (2012: Nil).

4. Gearing Ratio

As at 31 March 2013, the gearing ratio of the Group was 0.42 (2012: 0.26) which was calculated based on the Group's total borrowings to total assets. The increase was mainly due to the shrinkage of total assets during the Financial Year because of the impairment loss recognized on Khushuut Coal Mine and 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

The details of the Group's contingent liabilities as at 31 March 2013 are disclosed in Note 37 to the consolidated financial statements.

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.

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 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 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, 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 meters 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 under the MPL, please refer to our licence list in this Report.

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

We require various contractors for the mining operations of our Khushuut Coking Coal Project. If there is any unforeseeable event which renders these contractors unable to continue providing their services 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 four-year term. Parliament members are elected by district for a four-year term.

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 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

The focus for the first half of 2013 has been dedicated to the continuation of our infrastructures building such as the Dry Coal Processing System in Khushuut and the Washing Plant Project in Xinjiang. As no commercial production took place in the first half of the year, resumption in the later part of the year will depend on a number of factors such as the political and regulatory environment in Mongolia, the development of the coking coal market in the PRC, the completion and commissioning of the Dry Coal Processing System, and the appointment of a suitable mine contractor.

The political climate in Mongolia has undergone rapid changes recently. The adoption of the MPL and the Foreign Investment Law by the Mongolian government has impaired the confidence of international investors to invest in Mongolia. Recently, the Mongolian government proposed to put certain deposits including our Khushuut Coal Mine in the Strategic Deposit list for consideration by its Parliament has further shaken the investors' confidence. While we are still forging ahead with our Khushuut project, we hope the Mongolian government will end this gloomy political climate as soon as possible by taking positive measures to restore the confidence of international investors.

Despite the challenges, we believe our niche proximity to the Xinjiang market and the type of our coking coal are still providing us a favourable driver for moving forward. As the infrastructure projects in the PRC are still underway, we are optimistic that the coking coal market will be recovered gradually. In the meantime, we will adopt extreme cautious policies in our project expenditures before the clearance of the gloomy political and economic climate globally.

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 at the end of the Financial Year was as follows:

Licence (licence no.)	**Location** (resources)	**Mine Area (approximate)** (hectare)$^{\Delta}$	**Date of issuance**	**Licence valid period**#	**Development status**
	(coal resources)				
1414A 1640A 4322A✧ 6525A 11887A 11888A✧ 11889A* 11890A* 11515X✧	Khushuut, Khovd, Western Mongolia	16,768	30 December 1998 25 May 1999 23 April 2002 7 November 2003 14 August 2006 14 August 2006 14 August 2006 14 August 2006 20 March 2006	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.
	(coal, ferrous, and non-ferrous resources)				
15289A✧ 11628X✧ 11724X✧	Gants Mod, Western Mongolia	5,670	23 November 2009 3 April 2006 28 April 2006	9 years for Exploration Licences (X)	MEC will explore resources in these areas for further resources development potential.
Sub-total Hectares		**22,438**			
	(coal, ferrous, and non-ferrous resources)				
2913A✧*	Olon Bulag, Western Mongolia	38	26 January 2001	70 years for Mining Licence (A)	–
17277X	Govi-Altai, Western Mongolia	28,585	28 April 2006	9 years for Exploration Licence (X)	MEC will explore resources in this area for further resources development potential.

Licence (licence no.)	**Location** (resources)	**Mine Area (approximate)** (hectare)[△]	**Date of issuance**	**Licence valid period**[#]	**Development status**
11719X[✧]	Govi-Altai, Western Mongolia	48,254	28 April 2006	9 years for Exploration Licence (X)	As above.
12126X[✧]	Govi-Altai, Western Mongolia	41,386	24 October 2006	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.
Sub-total Hectares		**121,512**			
	(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		**151,449**			

△ *1 hectare = 10,000 square meters*

\# *the exploration licences are for three years with two further extensions of three years. The Mining Licences are for thirty years with two further extensions of twenty years.*

▲ *(X) stands for exploration licence*

▲▲ *(A) stands for mining licence*

* *under suspension*

✧ *licences are overlapping areas described under Mining Prohibition Law.*

Corporate Social Responsibility

As a good and responsible corporate citizen, MEC has always been devoted to being socially responsible throughout the development of its mining businesses in Mongolia. We hope to grow while making lasting contributions to the development of the country and creating a meaningful way of living and working for the local communities.

During the Financial Year, MEC continued to emphasize on local community development and partnerships by giving back to the society in Mongolia. We contributed over HK$3 million to hospitals, children welfare departments, government development funds, and culture centers, etc. in Mongolia, including the donation to a new primary hospital construction project in Jargalant soum, Khovd Province.

MEC believes that education of the youths is key to the development of the community, therefore, we continue to donate to the continuous education sponsorship to support the underprivileged students to achieve higher levels of tertiary education. Since 2008, we have provided full scholarships for 173 students allowing them to enroll for four-year degree courses in universities. Furthermore, MEC has sponsored local events such as the annual celebration projects organized by the children welfare departments and the international festival of Khuumii organized by the Governor Office to bring the communities in Khovd Province closer together.

Means of transport is not only important to our business but also to the local communities. We are proud to say that the Khushuut Road has been in service since December 2011. Local citizens from Khovd Province, and nearby provinces namely Uvs Province, Bayan-Ulgii Province, Zavhan Province, and Govi-Altai Province, can freely use our road to commute between Mongolia and the PRC. Before the construction of the Khushuut Road, local people from Western Mongolia required to drive on a rocky road for more than twelve hours in order to reach the Yarant Border Station. After commission of the asphalted Khushuut Road, the border is now within a four-hour drive. Moreover, the border activities have become more active and prosperous since then as local people have been starting their small businesses along the Khushuut Road.

MEC provides various forms of material assistance to the local people. Thermal coal has been donated to elders in the local area to alleviate their hardship during the freezing cold winter. MEC has also hired potable water truck for the purpose of providing the 160 families in Khushuut village with clean water for daily usage.

MEC is devoted to the local communities but we also realize that our employees are one of our important assets, thus, we aim to create a safe and healthy working environment for our people. A medical service centre has been set up at our Khushuut Mine Site with a medical team which includes national doctors and expatriate medics to provide primary health care, medical emergency response, stabilization, and treatment to the Company's employees. Site health plan, occupational health program, and first aid training are carried out to enhance employees' awareness on safety and health. All employees on-site are entitled to free annual medical check-up to ensure their health and well-being. In addition, our medical team also provides necessary first aid assistance and support to the local community, will offer free medicaments in emergency cases.

MEC believes that conducting our activities in an environmentally responsible manner is essential to sound business management. Green Office Guidelines for difference aspects have been set up in the Hong Kong Head Office for our staff to follow. These guidelines include Reuse, Reduce, and Recycle. We hope to contribute to a healthier planet by reinforcing the education and awareness of social and environmental responsibility to our employees.

In the coming years, MEC will continue our efforts in helping the development of the local area and improving the overall standard of living for the people around us in relevant aspects. We strongly believe that developing our business while creating values to our employees, the local community, and the beautiful environment, will enable us to deliver a more consistent performance in future.

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 the shareholders. The Board and the management of the Company have joint responsibilities to maintain the interest of the shareholders and the sustainable development of the Group. The Board also believes that a good corporate governance practice can facilitate rapid growth of a company under a healthy governance structure and strengthen the confidence of the shareholders and investors.

During the year ended 31 March 2013, the Company had applied the principles of the code provisions of the Corporate Governance Code contained in Appendix 14 (the "**CG Code**") to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and complied with the code provisions of the CG Code except the deviations as mentioned below:

i. Under 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 code provision A.4.1 of the CG Code. However, they are subject to 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 in this respect is no less exacting than those of the CG Code.

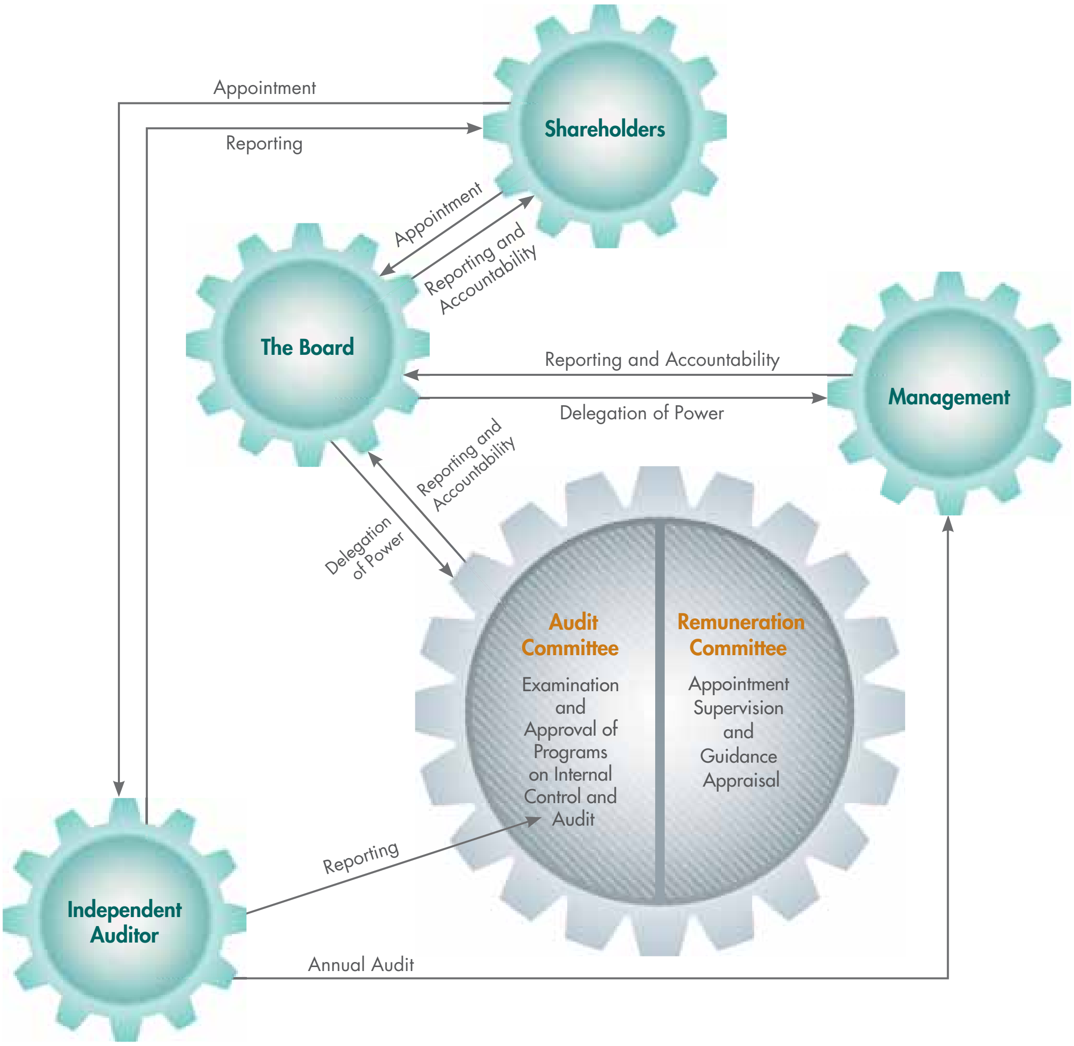
ii. Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting ("**AGM**").

   The Chairman did not attend the 2012 AGM due to another business engagement. An Executive Director chaired the 2012 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 was also available to answer questions at the 2012 AGM. Other than the AGM, the shareholders may communicate with the Company through the contact information listed on the Company's website.

iii. Code provisions A.5.1 to A.5.4 require a nomination committee to be set up, chaired by the independent non-executive directors or chairman of the board to review the structure, size and composition of the board at least annually to complement the issuers corporate strategy.

   The Company has not set up a nomination committee as required. The Board considers that it should be the responsibility of the full Board to review these matters and make decisions from time to time. The Board has already set out the criteria for selection of a Director under its internal policy. According to the Bye-laws of the Company, any newly appointed Directors are required to offer themselves for re-election at the next general meeting. Furthermore, the Director re-election process participating by the shareholders in the AGMs and the rights of shareholders to nominate a Director both ensure a right candidate to be selected to serve the Board effectively.

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 inside information of the Company. To date, no incident of non-compliance of the Employees' Guidelines by the employees has been noted by the Company.

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

During the period of sixty 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 the Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published.

In the period of thirty days immediately preceding the publication of the half year results or, if shorter, the period from the end of the relevant quarterly or half year period up to and including the publication date of the results, all the 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 the Legal and Compliance Department will send reminders prior to the commencement of such period to all the 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.

The Directors are required to confirm in writing that they have complied with the required standards set out in the Model Code and the Code throughout a financial year. The Company has made specific enquiry to ask the Directors for this purpose and no non-compliance of the Model Code and the Code has been noted.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Promoting good corporate governance and managing enterprise-wide risk are the priorities for 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 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 42 to 43. The Company has also posted the Directors' information on its website and the website of the Stock Exchange.

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 existing Non-executive Directors is appointed for a specific term. 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.

The Board will review its composition regularly to ensure that it has a balance of expertise, skill, and experience appropriate to the business and development of the Company. The shareholders may propose a candidate for election as a director and the procedures have been published on the website of the Company.

During the year ended 31 March 2013, 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 Board is also responsible for developing and reviewing the Company's policies on corporate governance and making recommendations. The Board as a whole and the management of the Company shall ensure good corporate governance practices and procedures are followed.

The Directors, collectively and individually, are aware of their responsibilities to the shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances as and when necessary, the Directors can 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 may delegate the management powers to the management of the Company. However, the delegation of power does not absolve the Directors from their responsibilities of exercising requisite skill, care and diligence in overseeing the performance of the Company. The representatives of the Board can meet the management of the Company from time to time to discuss the operating issues of the Group. The Company has also issued formal appointment letter to all the Directors setting out the key terms and conditions of their respective appointment.

In order to enable the Directors to discharge their duties effectively, each Director has separate and independent access to members of the management to make enquiries or obtain necessary information. They may also seek advices and services from external experts and consultants at the Company's expense for the purpose of facilitating them to make an informed decision.

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.

The Board is also responsible for performing the following corporate governance functions:

i. to develop and review the Company's policies on corporate governance and make recommendations;

ii. to review and monitor the training and continuous professional development of the Directors and management;

iii. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

iv. to develop, review, and monitor the code of conduct of employees and Directors; and

v. to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

For the year ended 31 March 2013, 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 revised corporate governance procedures;

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

vi. reviewed and approved the price sensitive transactions of the Company;

vii. reviewed and approved the connected transactions of the Company; and

viii. 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.

The Directors are aware of their commitments to the Company for contributing sufficient time and attentions to the management of the Company.

All the Directors should participate in continuous professional development to develop and refresh their knowledge and skills in their roles as directors pursuant to code provision A.6.5 of the CG Code. Attendance to any professional courses recognized by registered professional bodies such as The Law Society, ACCA, The Hong Kong Institute of Chartered Secretaries, etc., are recognized by the Company for this purpose. The Directors will also be provided with materials from time to time to keep afresh of the latest legal and regulatory changes to enable them to discharge their duties.

During the year, all the Directors, namely Messrs. Lo Lin Shing, Simon, Yvette Ong, Liu Zhuo Wei, To Hin Tsun, Gerald, Peter Pun *OBE, JP*, Tsui Hing Chuen, William *JP*, and Lau Wai Piu, have participated in appropriate continuous professional development activities by ways of attending trainings and/or reading materials relevant to the Company's businesses or to the Directors' duties and responsibilities.

(c) Chairman, Chief Executive, and Company Secretary

The Chairman of the Board and the chief executive during the year ended 31 March 2013 were Mr. Lo Lin Shing, Simon and Ms. Yvette Ong respectively. Mr. James Schaeffer retired from the office of Chief Executive Officer effective on 1 June 2012 and his role has been assumed by the Managing Director, Ms. Yvette Ong. The Chairman and the Managing Director have different roles in the management of the Company.

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 the Directors receive reliable, adequate, and complete information in a timely manner. The Chairman may communicate with the Directors directly or through the assistance of the Company Secretary, to discuss or clarify any issues concerning the Group from time to time, and to provide any supporting information and documents to them.

The Chairman assumes the primary responsibility for ensuring that good corporate governance practices and procedures are established. During the Financial Year, the Company had revised its corporate governance practices manual to bring the up-to-date corporate governance practices for internal control and compliance purposes.

The Managing Director is responsible for the conduct of day-to-day operation of the Company and accountable to the Board for all aspects of the corporate performance. She recommends policies to the Board for consideration and approval, and keeps the Board informed of any material developments of the Company's business. The Managing Director may delegate her duties to any other management members or responsible officers of the Company but she still assumes the principal responsibility.

The Company Secretary is an employee of the Company and has served the Company as Company Secretary since July 2004. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Under the Company's Bye-laws, the appointment of the Company Secretary shall be determined by the Board. The Company Secretary shall attend all meetings of the shareholders and of the Directors, keep correct minutes of such meetings, and enter the same in the proper books provided for the purpose. During the Financial Year, the Company Secretary had taken no less than fifteen hours of relevant professional training.

(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. The Directors are provided with major operations and updates of the Group and financial information on a monthly basis since April 2012 to enable the Directors to assess the performance of the Group in regular intervals.

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 55 to 56.

The Board understands its responsibility under the Listing Rules and other applicable regulations to make assessment and disclose updated developments and inside information regarding the Group to the shareholders and investing public in a timely manner. During the Financial Year, the Company had issued nine voluntary and price sensitive/insider information announcements for updating the business progress and developments of the Group.

(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. 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 the shareholders and 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 shareholders can communicate with the Company or communicate with the Board through the contact information provided on the website and in the general meetings of the Company from time to time.

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

During the year, the Company held two general meetings which included the AGM. In the 2012 AGM, the Directors and the independent auditor of the Company had attended to answer the shareholders' enquiries. Also, separate resolutions for each separate issue had been proposed at the general meetings for voting by the shareholders. For the AGM, the Company had provided the shareholders with at least thirty seven days of notice in advance while twenty days notice for the special general meeting.

The rights of the shareholders to convene special general meetings of the Company and to make proposals at the general meetings under the applicable Bye-laws of the Company and the Companies Act of Bermuda as amended from time to time have been made available on the Company's website.

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, and two general meetings. The attendance of each Director is as follows:

Number of Meetings	Board Meetings 4	General Meetings 2
Executive Directors		
Mr. Lo Lin Shing, Simon	4/4	0/2
Ms. Yvette Ong	4/4	1/2
Mr. Liu Zhuo Wei	0/4	0/2
Non-executive Director		
Mr. To Hin Tsun, Gerald	4/4	0/2
Independent Non-executive Directors		
Mr. Peter Pun *OBE, JP*	4/4	0/2
Mr. Tsui Hing Chuen, William *JP*	4/4	2/2
Mr. Lau Wai Piu	4/4	2/2

For regular Board meetings, at least fourteen days notice will be given before such meetings and all the Directors are given an opportunity to include matters in the agenda for the regular Board meetings. The Board papers will usually be sent at least three days before such meetings. The minutes of the Board meetings are kept by under the Company Secretarial Department and are available for inspection by the Directors at any reasonable time. For other Board meetings, prior reasonable notice will be given to the Directors before the meetings.

For every Board meeting, each Director has to declare whether he/she has any conflict of interests in the matters to be considered. If a substantial shareholder or a Director has a conflict of interest which is considered by the Board as material, the matters should be dealt with by a physical Board meeting rather than written resolution.

During the Financial Year, the Chairman had held one meeting with Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors.

There had been no changes in the Company's Bye-laws during the Financial Year. The Company's Bye-laws have been shown on the Company's website.

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 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 the Audit Committee

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

(b) Role and Function

The main responsibilities of the Audit Committee include, but are not limited to, reviewing the Company's current financial standing, considering the nature and scope of audit reports, and ensuring internal control and risk management systems operate in accordance with applicable standards and conventions.

The terms of reference of the Audit Committee which was revised and adopted in March 2012 are in line with the requirements of the Listing Rules. Details of the terms of reference of the Audit Committee can be viewed on both the websites of the Company and the Stock Exchange.

(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 had 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. The external consultant also has to review and study the remuneration level of the senior management of the Company and give recommendation.

(a) Composition of the Remuneration Committee

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

(b) Role and Function

The main responsibilities of the Remuneration Committee include, but are not limited to, making recommendations to the Board on the Company's policy and structure for remuneration of all the Directors and senior management, reviewing and approving the special remuneration packages of all Executive Directors with reference to corporate goals and objectives resolved by the Board from time to time, and determining, with delegated responsibility, the remuneration packages of individual Executive Directors.

The terms of reference of the Remuneration Committee which was revised and adopted in March 2012 are in line with the requirements of the Listing Rules. Details of the terms of reference of the Remuneration Committee can be viewed on both the websites of the Company and the Stock Exchange.

(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 2012 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 55 to 56.

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	3,137
Non-audit services	838
	3,975

SHAREHOLDERS RIGHTS

The Company has only one class of shares. All shares have the same voting rights entitled to the dividend declared. The rights of our shareholders are set out, among others, the Bye-laws of the Company and the Bermuda Companies Act.

Rights and Procedures for the Shareholders to Convene a General Meeting

Shareholders holding of not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company may by written requisition to the Board or the Company Secretary to request a general meeting to be held for the transactions of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

If within twenty one days of deposit of the requisition to convene a general meeting, the Board fails to convene such meeting, the relevant shareholders may do so in accordance with the provisions of Section 75(3) of the Bermuda Companies Act.

The written request must state the objects of the meeting, be signed by the shareholders concerned. The written request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution or business to be transacted in the agenda for the general meeting.

If the request which has been verified is not in order, the shareholders making the request will be advised of this outcome and accordingly, the general meeting will not be convened as requested.

The notice period to be given to the registered shareholders for consideration of the proposal raised by the shareholders concerned at an general meeting varies according to the nature of the proposal. Pursuant to Bye-law 59(1) of the Company's Bye-laws, an AGM shall be called by a notice of not less than twenty clear business days and all other general meeting at which the passing of a special resolution is to be considered shall be by not less than ten clear business days.

Procedures for Putting Forward Proposals at General Meetings

Any shareholder(s) representing not less than one-twentieth of the total voting rights of the Company on the date of the requisition or not less than one hundred shareholders are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company.

The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement with respect to the matter referred to in the proposal must be deposited at the registered office of the Company and in the case of (i) a requisition requiring notice of a resolution, not less than six weeks before the meeting; and (ii) any other requisition, not less than one week before the meeting.

Procedures for the Shareholders to Propose for Election as a Director

If a shareholder wishes to propose a person other than a Director of the Company for election as a Director at any general meeting, he/she can deposit a written notice to that effect at the address of the Company for the attention of the Company Secretary.

In order for the Company to inform the shareholders of that proposal, the written notice must state the full name of the person proposed for election as a Director, include the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and that person indicating his/her willingness to be elected. The period for lodgment of such a written notice will commence no earlier than the day after the despatch of the notice and end no later than seven days prior to the date of any general meeting.

Right to Put Enquiries to the Board

The shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong as set out in the section headed "Corporate Information" for the attention of the Company Secretary or by email to us at enquiry-hk@mongolia-energy.com.

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 the 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 57, 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 48, 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 60, 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 and 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 64, 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 82, 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 62, 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, all of which are listed on the Stock Exchange.

Mr. Lau Wai Piu
Independent Non-executive Director

Mr. Lau, aged 49, 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, 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 2013.

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 2013 is set out in Note 8 to the financial statements.

RESULTS

The results of the Group for the year ended 31 March 2013 are set out in the Consolidated Income Statement on page 57.

No interim dividend was declared (2012: Nil) and the Directors do not recommend the payment of a final dividend for the year ended 31 March 2013 (2012: 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 33 and 34 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 2013 and for the last four financial years are set out on page 115.

RESERVES

Movements in reserves of the Group and the Company during the year are set out on pages 61 and 114 respectively.

DONATIONS

For the year ended 31 March 2013, the Group made donations for charitable and other donations to a total amount of HK$3,201,000.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in Note 16 to the financial statements.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the principal subsidiaries and associated companies of the Group as at 31 March 2013 are set out in Notes 39 and 21 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	36%
Five largest suppliers in aggregate	64%

Sales

The largest customer	56%
Five largest customers in aggregate	97%

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

DIRECTORS

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

In accordance with Bye-law 87 of the Bye-laws of the Company, Messrs. Lo Lin Shing, Simon, Liu Zhuo Wei, and Peter Pun *OBE, JP* will retire. All the retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM.

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

Biographical details of the Directors and Senior Management of the Group are set out on pages 42 to 43.

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 41.

DIRECTORS' INTERESTS

As at 31 March 2013, 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	642,555,555 (Note)	9.510%
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 642,555,555 shares, 630,555,555 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 2013, 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 2013, 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	1,855,343,856 *(Note 1)*	27.460%
Golden Infinity	Corporate	1,836,633,856	27.183%
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	1,780,555,555 *(Note 3)*	26.353%
Chow Tai Fook Nominee Limited ("**CTF**")	Corporate	1,775,555,555 *(Note 3)*	26.279%

Notes:

1. *Mrs. Lo is the spouse of Mr. Lo and accordingly, she is deemed to be interested in 1,855,343,856 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 1,775,555,555 shares held by CTF. 1,775,555,555 shares held by CTF represent 220,000,000 shares and 1,555,555,555 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 2013.

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 SCHEMES

Under the share option schemes adopted by the Company on 28 August 2002 (the "**2002 Share Option Scheme**") and 30 August 2012 (the "**2012 Share Option Scheme**") respectively, 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 2002 Share Option Scheme was expired and terminated on 27 August 2012.

The following is a summary of the terms of the 2012 Share Option Scheme:

1. Purpose
   The purpose of the 2012 Share 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 2012 Share 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 2012 Share Option Scheme, the total number of shares which may be issued under options to be granted is 675,654,782 which represent approximately 10% of the issued share capital of the Company as at 31 March 2013.

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 twelve-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 2012 Share 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 ten 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 five trading days immediately preceding the offer date; and (iii) the nominal value of a share.

9. **Remaining life of the Share Option Schemes**

The 2012 Share Option Scheme is valid and effective for a term of ten years commencing from 30 August 2012.

Details of the movement in outstanding share options, which have been granted under the 2002 Share Option Scheme, during the year were as follows:

(A) Directors

					Number of shares subject to options				
Name	Date of grant	Exercise price HK$	Exercise period	Vesting period	As at 1 April 2012	Granted during the year	Lapsed during the year	Exercised during the year	As at 31 March 2013
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	–	–	–	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	–	–	–	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	–	–	–	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	–	–	–	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	–	–	–	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	–	–	–	500,000
Sub-total					21,500,000	–	–	–	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 2012	Granted during the year	Lapsed during the year	Exercised during the year	As at 31 March 2013
Employees in aggregate (including a director of certain subsidiaries)	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	3,300,000	–	–	–	3,300,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	42,500,000	–	–	–	42,500,000
Sub-total					45,800,000	–	–	–	45,800,000
TOTAL					**67,300,000**	**–**	**–**	**–**	**67,300,000**

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$1,900 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 2013, a total of HK$470 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 2013:

(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, 31, and 38(a) 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 Bermuda Companies Act which would oblige the Company to offer new shares on a pro-rata basis to the 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 2013 had been reviewed by the Audit Committee.

HUMAN RESOURCES

As at 31 March 2013, excluding site and construction workers directly employed by our contractors, the Group employed 301 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, 28 June 2013

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS 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 57 to 112, which comprise the consolidated statement of financial position as at 31 March 2013, 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 2013, 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 3 and 5 to the consolidated financial statements. The Group's commercial coal production of Khushuut Coal Mine in Western Mongolia has been halted due to the dispute with the former sole mining contractor and the relevant mining services agreement had been terminated. The resumption of production will depend on the selection of a new suitable coal extraction contractor to perform the coal extraction work. The Group is currently in the final rounds of negotiation with a potential coal extraction contractor for the provision of coal extraction work and the process is at an advanced stage. The negotiation has not been completed up to the date of this report. Included in the consolidated statement of financial position as at 31 March 2013 are property, plant and equipment, intangible assets and development in progress with an aggregate carrying value of approximately HK$7,780 million in relation to the Khushuut Coal Mine operation (collectively referred to as "**Khushuut Related Assets**"). For the purpose of assessing impairment of the Khushuut Related Assets, the Directors engaged an independent valuer to assess the recoverable amount based on a value in use calculation at the end of the reporting date, using discounted cash flow analysis. As the negotiation with the potential coal extraction contractor is at an advanced stage, the Directors instructed the independent valuer to use the information and assumptions provided by the potential coal extraction contractor, including the cost structure and production capacity of the Khushuut Related Assets. The recoverable amount of the Khushuut Related Assets estimated by the valuer was significantly lower than their carrying value, and accordingly, an impairment loss amounting to approximately HK$3,135 million was recognised in the consolidated income statement. Once the Group has finalised the appointment of the new coal extraction contractor, the key assumptions adopted in the value in use calculation such as the timing of recommencement of commercial coal production, cost structure and production capacity may be significantly different and this may have a significant effect on the recoverable amount of the Khushuut Related Assets.

In addition, as disclosed in Notes 16 and 20 to the consolidated financial statements, the Group owns a number of mining concessions in Western Mongolia for coal mining, four of which the Mineral Resources Authority of Mongolia has notified the Group are within the areas designated as land where mineral exploration and mining are prohibited under the Mining Prohibition Law (the "**MPL**") and the Group owns a number of exploration/mining concessions in Western Mongolia, which are also within the designated areas prohibited under the MPL. According to the MPL, the affected licence holders, including the Group, are to be compensated but details of the compensation are not currently available. The Mongolian government has also announced that they intend to add the Khushuut Coal Mine into the list of deposits of strategic importance in Mongolia ("**Strategic Deposits**") for consideration by the Parliament of Mongolia as set out in Note 16 to the consolidated financial statements. The Directors consider that the Khushuut Coal Mine does not fit the selection criteria outlined by the Minerals Law and have issued a written objection to the Mongolian government however they considered that the extent of the impact to the Group cannot be ascertained at this stage. If any of these mining concessions and/or exploration concessions are revoked due to the MPL and the compensation received by the Group is significantly less than the carrying amounts of these concessions and/or the Khushuut Coal Mine is added into the list of Strategic Deposits, the Group might incur a significant impairment loss on the related assets. The Directors have concluded that, other than the impairment losses recognised as described in the paragraph above, no impairment that results from the MPL and/or the Minerals Law are required to be recognised in the consolidated financial statements. However, the ultimate outcome of these matters cannot presently be determined.

Further, we draw attention to Note 1 to the consolidated financial statements which indicates that as at 31 March 2013, the Group's current liabilities exceeded its current assets by approximately HK$1,377 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 financial obligations as and when they fall due. This condition indicates the existence of a material uncertainly which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 June 2013

Consolidated Income Statement

For the year ended 31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
Revenue	8	11,792	6,215
Cost of sales		(261,863)	(100,610)
Gross loss		(250,071)	(94,395)
Other income	9	5,056	2,303
Other gains and losses	10	(12,333)	(107,891)
Administrative expenses		(210,885)	(210,297)
Fair value gain on derivative component of convertible notes		302,987	432,016
Impairment loss on property, plant and equipment	3, 16	(2,749,126)	(4,018,605)
Impairment loss on intangible assets	3, 18	(373,318)	(562,835)
Impairment loss on development in progress	3, 19	(12,488)	(18,560)
Impairment loss on available-for-sale financial asset	22	–	(6,797)
Impairment losses on loans to associates		(2,512)	(1,207)
Share of losses of associates	21	–	(6,222)
Finance costs	11	(388,743)	(247,067)
Loss before taxation	12	(3,691,433)	(4,839,557)
Income tax (expense) credit	13	(7,385)	7,385
Loss for the year		(3,698,818)	(4,832,172)
Loss for the year attributable to owners of the Company		(3,698,818)	(4,832,172)
Loss per share attributable to owners of the Company			
– basic and diluted loss per share (HK cents)	15	(54.74)	(73.04)

Note:

The presentation of the consolidated income statement for the year ended 31 March 2012 was changed from by nature to by function for better presentation and to be consistent with current period presentation.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2013

	2013 HK$'000	2012 HK$'000
Loss for the year	**(3,698,818)**	(4,832,172)
Other comprehensive expense		
Exchange differences arising on translation	**(394)**	(36,742)
Total comprehensive expense for the year	**(3,699,212)**	(4,868,914)

Consolidated Statement of Financial Position

As at 31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	16	6,850,079	9,513,962
Investment property	17	124,900	116,566
Intangible assets	18	913,073	1,328,053
Development in progress	19	30,449	43,777
Exploration and evaluation assets	20	292,690	299,206
Interests in associates	21	–	–
Available-for-sale financial asset	22	–	–
Other asset		1,150	1,150
Prepayments for exploration and evaluation expenditure	23	10,458	10,458
Deposits for property, plant and equipment and other long-term deposits	24	6,508	40,889
Deferred tax assets	32	–	7,385
		8,229,307	11,361,446
Current assets			
Trade receivables	25	29	5,389
Inventories	26	5,183	24,331
Other receivables, prepayments and deposits		14,963	30,583
Held-for-trading investments	27	26,528	27,169
Amounts due from associates	21	9,270	9,900
Cash and cash equivalents	28	51,578	84,963
		107,551	182,335
Current liabilities			
Trade payables	29	68,941	57,102
Other payables and accruals		152,335	143,143
Convertible notes	30	741,279	12,310
Advances from a Director	38(a)	470,013	479,548
Other loan	31	51,527	–
		1,484,095	692,103
Net current liabilities		(1,376,544)	(509,768)
Total assets less current liabilities		6,852,763	10,851,678
Non-current liability			
Convertible notes	30	2,206,661	2,506,364
Net assets		4,646,102	8,345,314

Consolidated Statement of Financial Position *(Continued)*
As at 31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
Financed by:			
Capital and reserves			
Share capital	33	135,131	135,131
Reserves		4,510,971	8,210,126
Equity attributable to owners of the Company		4,646,102	8,345,257
Non-controlling interests		–	57
Total equity		4,646,102	8,345,314

The consolidated financial statements on pages 57 to 112 were approved and authorised for issue by the Board of Directors on 28 June 2013 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 2013

	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 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 and 1 April 2012	**135,131**	**13,107,506**	**199,594**	**–**	**62,037**	**(20,958)**	**(5,138,053)**	**8,345,257**	**57**	**8,345,314**
Comprehensive expense										
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(3,698,818)**	**(3,698,818)**	**–**	**(3,698,818)**
Other comprehensive expense										
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**–**	**(394)**	**–**	**(394)**	**–**	**(394)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(394)**	**(3,698,818)**	**(3,699,212)**	**–**	**(3,699,212)**
Reversal of previous shares of results by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**57**	**57**	**(57)**	**–**
At 31 March 2013	**135,131**	**13,107,506**	**199,594**	**–**	**62,037**	**(21,352)**	**(8,836,814)**	**4,646,102**	**–**	**4,646,102**

Consolidated Statement of Cash Flows

For the year ended 31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
Operating activities			
Loss before taxation		(3,691,433)	(4,839,557)
Interest income		(502)	(2,303)
Finance costs	11	388,743	247,067
(Reversal of) loss on write off of property, plant and equipment	16	(792)	49,910
Loss on write off of intangible assets	18	–	133
Loss on write off of exploration and evaluation assets	20	15,182	4,113
Loss on write off of deposit and loan and receivable		1,741	48,898
Loss on write off of deposit for property, plant and equipment and other long-term deposits		1,589	–
(Gain) loss on disposal of property, plant and equipment		(748)	54
Share of loss of associates	21	–	6,222
Amortisation of intangible assets		23,069	3,873
Amortisation of the transaction costs on issuance of convertible notes	30	6,053	6,001
Depreciation		17,882	17,643
Fair value gain on investment property	17	(6,870)	(7,031)
Fair value loss from held-for-trading investments		641	10,457
Fair value gain on derivative component of convertible notes	30	(302,987)	(432,016)
Impairment loss on property, plant and equipment	16	2,749,126	4,018,605
Impairment loss on intangible assets	18	373,318	562,835
Impairment loss on development in progress	19	12,488	18,560
Impairment losses on loans to associates		2,512	1,207
Impairment loss on available-for-sale financial asset	22	–	6,797
Equity settled share based payments	34	–	22,569
Operating cash flows before movements in working capital		(410,988)	(255,963)
Decrease (increase) in inventory		54,442	(4,544)
Decrease (increase) in trade receivables		5,360	(5,389)
Decrease in other receivables, prepayments and deposits		13,879	22,550
Decrease in prepayment for exploration and evaluation expenditure		–	11,558
Increase in trade payables		43,039	19,995
Increase in other payables and accruals		9,999	87,741
Net cash used in operations		(284,269)	(124,052)
Income tax paid		–	–
Net cash used in operating activities		(284,269)	(124,052)

	Notes	2013 HK$'000	2012 HK$'000
Investing activities			
Purchase of property, plant and equipment		**(116,524)**	(296,020)
Proceeds received from disposal of property, plant and equipment		**3,818**	14
Development in progress additions		**–**	(192,581)
Exploration and evaluation asset additions	20	**(8,666)**	(9,004)
Intangible asset additions	18	**–**	(94)
Deposits for property, plant and equipment and other long-term deposits		**(6,508)**	(60)
Capital contribution to associates		**–**	(6,222)
Advances to associates		**(2,462)**	(1,000)
Repayment of long-term advances by an associate		**–**	200,000
Repayment of advances from an associate		**580**	–
Available-for-sale financial asset addition	22	**–**	(2,883)
Bank interest received		**502**	2,303
Net cash used in investing activities		**(129,260)**	(305,547)
Financing activities			
Proceeds received from share placements		**–**	120,000
Proceeds received from issue of convertible notes		**400,000**	–
Proceeds received from short-term loan		**50,000**	–
Payment for share issue costs		**–**	(2,500)
Advances from a Director		**355,286**	619,300
Repayment of advances from a Director		**(398,320)**	(200,000)
Interest paid		**(26,822)**	(27,113)
Transaction cost on issuance of convertible notes		**(695)**	–
Net cash generated from financing activities		**379,449**	509,687
Net (decrease) increase in cash and cash equivalents		**(34,080)**	80,088
Cash and cash equivalents at beginning of the year		**84,963**	10,175
Effect of foreign exchange rate changes		**695**	(5,300)
Cash and cash equivalents at end of the year		**51,578**	84,963

Notes to the Consolidated Financial Statements

For the year ended 31 March 2013

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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 41st Floor 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 careful consideration to the future liquidity of the Group. While recognising that the Group had net current liabilities of approximately HK$1,376.5 million at 31 March 2013 and incurred a loss of approximately HK$3,698.8 million for the year then ended, 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$1,900.0 million with maturity date on 30 April 2014, of which approximately HK$1,430.0 million was unutilised as at 31 March 2013 to meet the Group's future funding needs. 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 amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"):

HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets
HKFRS 7 (Amendments)	Financial Instruments: Disclosure – Transfers of Financial Assets

The application of the amendments to 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:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009–2011 Cycle[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[4]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[4]
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]
HK(IFRIC) – Int 21	Levies[4]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2015.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2014.

Except for the adoption of HKFRS 13 as described below, the Directors anticipate that the application of the above new or revised standards, amendments to existing standards or interpretations will have no material impact on the results, the financial position and disclosure of the financial statements of the Group.

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 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 is unlikely to affect the amounts reported in the consolidated financial statements but will lead to more extensive disclosures in relation to fair value measurement of its convertible bonds.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

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, the 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 to HK$3,134,932,000 (2012: HK$4,600,000,000) was recognised in profit or loss during the year against the respective assets on a pro-rata basis with reference to their carrying values as follows:

For the year ended 31 March 2013

	Carrying values before impairment HK$'000	Impairment loss HK$'000	Carrying values after impairment HK$'000
Property, plant and equipment	9,585,438	2,749,126	6,836,312
Intangible assets	1,286,277	373,318	912,959
Development in progress	42,937	12,488	30,449
Total	10,914,652	3,134,932	7,779,720

During the year ended 31 March 2013, the commercial production of Khushuut Coal Mine in Western Mongolia has been halted due to the dispute with the former sole mining contractor and the relevant mining services agreement had been terminated, the Group is currently in the final rounds of negotiation with a new potential coal extraction contractor for the provision of coal extraction work. As the negotiation with the potential coal extraction contractor is at an advanced stage, the Directors instructed the Independent Valuer to use the information and assumptions provided by the potential coal extraction contractor, including the cost structure, production capacity of the Khushuut Related Assets and timing of recommencement of commercial coal production.

The main reasons for such a significant impairment loss being recognised in profit or loss this year are due to changes made in response to the cost structure of the potential coal extraction contractor, decrease in estimated selling price of coals and changes made in response to the temporary suspension of coal commercial production.

3. IMPAIRMENT LOSS RECOGNISED ON KHUSHUUT MINE RELATED ASSETS *(Continued)*

For the year ended 31 March 2012

	Carrying values before impairment HK$'000	Impairment loss HK$'000	Carrying values after impairment 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

The main reason for such a significant impairment loss being recognised in profit or loss during the year ended 31 March 2012 is due to a change made to the Group's business plan. 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 HKFRSs 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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and 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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Interests in associates

An associate is an entity over which the Group 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. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. 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.

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.

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

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 excluded royalties and other tax payables.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including mineral properties 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 mineral 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 will 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

Mineral properties incorporate both the mining rights (intangible) and the underlying mineral reserve (tangible) elements. Mineral properties are classified as property, plant and equipment to the extent the tangible reserve is the more significant element. Mineral properties comprise 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.

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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired separately *(Continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. When allocating an impairment loss to individual assets within a cash generating unit, the carrying amount of an individual asset should not be reduced below the highest of its fair value less cost of disposal (if measurable), its value in use (if determinable), and zero. If this results in an amount being allocated to an asset which is less than its pro rata share of the impairment loss, the excess is allocated to the remaining assets within the cash generating unit on a pro rata basis.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) 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 lessor

Rental income from operating lease is recognised on a straight-line basis over the relevant lease.

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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (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 at 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefits costs

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

Taxation

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

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated income statement because it excludes items of income or 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 deferred tax 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time. If the presumption is rebutted, deferred tax for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in the consolidated income statement.

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
- on initial recognition it is part of a portfolio of identified 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, 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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

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 debt and conversion option derivative

Convertible notes issued by the Company that contain both debt 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 debt and conversion option components are recognised at fair value.

In subsequent periods, the debt 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 debt 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 debt component are included in the carrying amount of the debt 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, advances from a Director and other loan 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 they meet the definition of a derivative 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable 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 16) and Strategic Deposits (as defined in Note 16) as discussed in details in Note 16 and Note 20(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.

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 Khushuut Related Assets 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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

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

Reserve estimates *(Continued)*

- 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 2013, the carrying value of Khushuut Related Assets is HK$7,779,720,000 (2012: HK$10,850,157,000).

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 2013, fair value of derivative components of the convertible notes is HK$96,811,000 (2012: HK$285,208,000).

Estimated impairment of Khushuut Related Assets

As described in Note 3, the commercial production of Khushuut Coal Mine in Western Mongolia has been halted due to the dispute with the former sole mining contractor and the relevant mining services agreement had been terminated, the Group is currently in the final rounds of negotiation with a new potential coal extraction contractor for the provision of coal extraction work. The Group engaged an Independent Valuer to determine the recoverable amount of the Khushuut Related Assets. For the purposes of impairment testing, the 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, using discounted cashflow analysis, in order to calculate the present value. Key assumptions used in the calculation include the timing of recommencement of commercial coal production, cost structure, production capacity, annual production estimate, forecasted selling price, estimated period of production and discount rate. During the year ended 31 March 2013, an impairment amounting to HK$3,134,932,000 (2012: HK$4,600,000,000) was recognised against the Khushuut Related Assets as its recoverable amount is significantly lower than its carrying values. Once the Group has appointed the new coal extraction contractor, the key assumptions adopted in the value in use calculation such as the timing of recommencement of commercial coal production, cost structure and production capacity may be significantly different and this may have a significant effect on the recoverable amount of the Khushuut Related Assets.

As at 31 March 2013, the carrying value of Khushuut Related Assets is HK$7,779,720,000 (net of accumulated impairment loss of HK$7,734,932,000) (2012: carrying value of HK$10,850,157,000, net of accumulated impairment loss of HK$4,600,000,000).

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 includes advances from a Director, other loan, 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

	2013 HK$'000	2012 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	**64,718**	138,369
Available-for-sale financial asset	**–**	–
Held-for-trading investments	**26,528**	27,169
Financial liabilities		
Measured at amortised cost	**3,593,473**	2,912,372
Embedded derivative component of convertible notes	**96,811**	285,208

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, other loan 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.

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, advances from a Director, other loan and convertible notes denominated in currencies other than functional currency of the relevant 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	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Hong Kong Dollars ("**HK$**")	**3,474,317**	3,002,457	**4,253**	53,796
Renminbi ("**RMB**")	**85,832**	79,414	**900**	716
Mongolian Tugrik ("**MNT**")	**69,940**	52,330	**3,518**	6,389

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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) *Currency risk (Continued)*

Sensitivity analysis

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

The 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% (2012: 5%) increase and decrease in US$ against the relevant foreign currencies. 5% (2012: 5%) is 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 number below indicates an increase in post-tax loss where US$ weakening 5% (2012: 5%) against RMB and MNT respectively. For a 5% (2012: 5%) strengthen of US$ against RMB and MNT respectively, there would be an equal and opposite impact on the loss.

	RMB		MNT	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Increase in loss for the year (Note)	**(4,253)**	(3,935)	**(3,518)**	(2,297)

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

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate convertible notes (see Note 30). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 28), advances from a Director and other loan.

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 and other loan.

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.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(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 2013 would decrease/increase by HK$1,326,000 (2012: HK$1,358,000) 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 in Note 30)

For the year ended 31 March 2013, 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, share price volatility and discount rate.

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 HK$3,718,000 (2012: HK$20,160,000)/decrease by HK$1,792,000 (2012: HK$19,494,000), as a result of changes in fair value of the derivative component of the convertible notes.

If the volatility of listed share prices of the Company had been 5% higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the year would increase by HK$5,380,000 (2012: HK$21,114,000)/decrease by HK$715,000 (2012: HK$21,061,000), 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 HK$5,417,000 (2012: HK$1,082,000)/decrease by HK$5,337,000 (2012: HK$1,097,000), 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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

As at 31 March 2013, 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.

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants. The amount of net current liabilities is HK$1,376,544,000 (2012: HK$509,768,000).

As at 31 March 2013, 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$1,900 million with HK$1,430 million unutilised to meet the Group's future funding needs.

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.

2013

	Weighted average effective interest rate %	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$'000	Carrying amount at 31 March 2013 HK$'000
Trade payables (Note 29)	–	68,941	–	–	–	68,941	68,941
Other payables	–	76,066	234	75,563	–	151,863	151,863
Advances from a Director – floating rate (Note 38(a))	8%	470,013	–	–	–	470,013	470,013
Other loan – floating rate (Note 31)	5%	–	–	52,500	–	52,500	51,527
Convertible notes – fixed rate (Note 30)	4%	–	–	793,638	2,640,000	3,433,638	2,947,940
		615,020	234	921,701	2,640,000	4,176,955	3,690,284

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

2012

	Weighted average effective interest rate %	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 – floating rate (Note 38(a))	5%	479,548	–	–	–	479,548	479,548
Convertible notes – fixed rate (Note 30)	3.5%	–	–	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

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).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

7. FINANCIAL INSTRUMENTS *(Continued)*

7c. Fair value *(Continued)*

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

2013

	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)	26,528	–	–	26,528

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

2013

	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)	–	–	96,811	96,811

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

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 2011	106,178
Issue of convertible notes	611,046
Fair value gain recognised in the consolidated income statement	(432,016)
At 31 March 2012	285,208
Issue of convertible note	**114,590**
Fair value gain recognised in the consolidated income statement	**(302,987)**
At 31 March 2013	**96,811**

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 2013, as the Group was still at its initial stage of commercial production, it had two (2012: one) customers that individually exceeded 10% of the Group's turnover, amounting to HK$6,604,000 (2012: HK$6,124,000) and HK$4,269,000 (2012: HK$Nil).

The Group's operating activities are focusing on the coal mining business. This operating segment has been identified on the basis of information reported to the chief operating decision maker (i.e. the executive Directors) for the purpose of resource allocation and performance assessment.

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 2013

	Coal mining **HK$'000**	**Total** **HK$'000**
Segment revenue	**11,792**	**11,792**
Segment loss	**(3,541,281)**	**(3,541,281)**
Unallocated expenses (Note)		**(67,051)**
Interest income		**17**
Other gains and losses		**5,150**
Fair value gain on derivative component of convertible notes		**302,987**
Impairment losses on loans to associates		**(2,512)**
Finance costs		**(388,743)**
Loss before taxation		**(3,691,433)**

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and result *(Continued)*

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)		(107,515)
Interest income		18
Other gains and losses		(3,425)
Fair value gain on derivative component of convertible notes		432,016
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)

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 of convertible notes, write off of deposit and loan and 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 2013

	HK$'000
ASSETS	
Segment assets – coal mining	7,884,854
Investment property	124,900
Held-for-trading investments	26,528
Amounts due from associates	1,225
Cash and cash equivalents	7,711
Other unallocated assets (Note a)	291,640
Consolidated total assets	8,336,858
LIABILITIES	
Segment liabilities – coal mining	175,922
Convertible notes	2,947,940
Advances from a Director	470,013
Other loan	51,527
Other unallocated liabilities (Note b)	45,354
Consolidated total liabilities	3,690,756

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 a)	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 (Note b)	44,572
Consolidated total liabilities	3,198,467

Notes:

(a) Other unallocated assets mainly represent property, plant and equipment, intangible assets, exploration right for iron ore, other asset and other receivables, prepayments and deposits not for coal mining business.

(b) Other unallocated liabilities mainly represent other payables and accruals not for coal mining business.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

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

	2013 HK$'000	2012 HK$'000
Capital additions (Note)	131,775	502,567
Amortisation of intangible assets	41,656	16,423
Depreciation of property, plant and equipment	32,751	22,737
Impairment loss on property, plant and equipment	2,749,126	4,018,605
Impairment loss on intangible assets	373,318	562,835
Impairment loss on development in progress	12,488	18,560
(Reversal of) loss on write off of property, plant and equipment	(792)	49,910
Loss on write off of intangible assets	–	133
Loss on write off of exploration and evaluation assets	15,182	4,113
Loss on write off of deposit and loan and receivable	–	48,898

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	
	2013 HK$'000	2012 HK$'000
Hong Kong	2,573	5,485
Mongolia	8,090,109	11,224,499
Mainland China	136,625	124,077
	8,229,307	11,354,061

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

9. OTHER INCOME

	2013 HK$'000	2012 HK$'000
Equipment rental income	**4,548**	–
Interest income	**502**	2,303
Sundry income	**6**	–
	5,056	2,303

10. OTHER GAINS AND LOSSES

	2013 HK$'000	2012 HK$'000
Fair value gain on investment property	**6,870**	7,031
Fair value loss on held-for-trading investments	**(641)**	(10,457)
Reversal of (loss) on write off of property, plant and equipment (Note)	**792**	(49,910)
Loss on write off of exploration and evaluation assets (Note 20(d))	**(15,182)**	(4,113)
Loss on write off of deposit and loan and receivable	**(1,741)**	(48,898)
Loss on write off of intangible assets	**–**	(133)
Loss on write off of deposit for property, plant and equipment and other long-term deposits	**(1,589)**	–
Gain (loss) on disposal of property, plant and equipment	**748**	(54)
Net exchange losses	**(1,590)**	(1,357)
	(12,333)	(107,891)

Note:

For the year ended 31 March 2012, management was in view that the water exploration project was not expected to bring any future economic benefits to the Group, therefore, the corresponding property, plant and equipment amounting to HK$49,910,000 were written off in that year.

11. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on borrowings wholly repayable within five years:		
Interest expense:		
Convertible notes (Note 30)	**353,717**	273,389
Advances from a Director (Note 38(a))	**33,499**	18,064
Other loan (Note 31)	**1,527**	–
Less: interest expense capitalised (Note 19 & Note)	**–**	(44,386)
	388,743	247,067

Note:

For the year ended 31 March 2012, the weighted average capitalisation rate on convertible notes and advances from a Director is 10% per annum on expenditure on road construction which is a qualifying asset.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

12. LOSS BEFORE TAXATION

	2013 HK$'000	2012 HK$'000
Loss before taxation has been arrived at after charging:		
Directors' emoluments (Note 14(a))	**5,225**	9,044
Other staff costs:		
Salaries and other benefits	**43,923**	73,777
Retirement benefits scheme contributions (excluding contributions for Directors)	**3,255**	2,843
Total staff costs (including equity settled share based payments)	**52,403**	85,664
Amortisation of intangible assets	**41,662**	16,483
Auditor's remuneration	**3,137**	2,700
Cost of inventories recognised as an expense (Note)	**35,121**	20,610
Depreciation of property, plant and equipment	**34,583**	24,820
Direct operating expenses arising from investment property that do not generate rental income	**16**	16
Operating lease rental in respect of office premises	**16,914**	16,746

Note:
Cost of inventories includes HK$5,861,000 (2012: HK$5,141,000), relating to depreciation and amortisation which are also included in the respective amounts disclosed separately above for each of these types of expenses.

13. INCOME TAX EXPENSE (CREDIT)

	2013 HK$'000	2012 HK$'000
Current tax	**–**	–
Deferred tax (Note 32)		
Charge (credit) for current year	**7,385**	(7,385)
	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 the Group has no assessable profit for both years.

13. INCOME TAX EXPENSE (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:

	2013 HK$'000	2012 HK$'000
Loss before taxation	(3,691,433)	(4,839,557)
Calculated at a tax rate of 16.5%	(609,086)	(798,527)
Tax effect on income not subject to tax	(51,280)	(72,447)
Tax effect on expenses not deductible for tax purposes	502,961	770,545
Tax effect on deductible temporary differences not recognised	109,101	113,728
Tax effect on tax loss not recognised	48,304	8,148
Reversal of previously recognised temporary differences	12,185	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(4,800)	(28,832)
Income tax expense (credit)	7,385	(7,385)

14. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and chief executive's emoluments

The remuneration of each of the Directors and chief executive for the year ended 31 March 2013 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	–	–	1,938	–	–	1,938
Liu Zhuo Wei	–	–	–	–	–	–
Yvette Ong	–	2,700	262	–	15	2,977
Non-executive Director						
To Hin Tsun, Gerald	10	–	–	–	–	10
Independent Non-executive Directors						
Peter Pun	100	–	–	–	–	100
Lau Wai Piu	100	–	–	–	–	100
Tsui Hing Chuen, William	100	–	–	–	–	100
	310	2,700	2,200	–	15	5,225
Chief Executive Officer						
James J. Schaeffer	–	1,000	28	–	–	1,028

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

14. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

The remuneration of each of the Directors and chief executive 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
Chief Executive Officer						
James J. Schaeffer	–	6,006	467	–	–	6,473

James J. Schaeffer retired as chief executive officer with effect from 1 June 2012. Since then, Yvette Ong is the chief executive of the Group. Her emolument disclosed above included those for services rendered by her as chief executive.

During the two years ended 31 March 2013 and 2012, no Director waived any directors' emoluments.

14. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Senior executives' emoluments

Of the five individuals with the highest emoluments in the Group, two (2012: two) were Directors of the Company whose emoluments are included in Note (a) above. The emoluments of the remaining three (2012: three) highest paid individuals during the year are as follows:

	2013 HK$'000	2012 HK$'000
Basic salaries, other allowances and benefits in kind	**8,176**	10,753
Contributions to MPF Scheme	**15**	24
Equity settled share based payments	**–**	16,511
	8,191	27,288

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2013**	2012
HK$1,500,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$2,500,000	**1**	–
HK$3,500,001 – HK$4,000,000	**1**	–
HK$6,000,001 – HK$6,500,000	**–**	1
HK$10,000,001 – HK$10,500,000	**–**	1
HK$10,500,001 – HK$11,000,000	**–**	1
	3	3

15. LOSS PER SHARE

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

	2013 HK$'000	2012 HK$'000
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	**(3,698,818)**	(4,832,172)

	2013 '000	2012 '000
Number of shares		
Weighted average number of ordinary shares in issue for the calculation of basic and diluted loss per share	**6,756,548**	6,615,974

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 for both years 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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

16. 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 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
Exchange adjustments	**–**	**(3,458)**	**–**	**2**	**2**	**4**	**–**	**251**	**(3,199)**
Additions	**–**	**–**	**62,215**	**1,894**	**697**	**1,845**	**6,959**	**51,014**	**124,624**
Written off	**–**	**–**	**–**	**(8,405)**	**(21)**	**(10)**	**–**	**–**	**(8,436)**
Reclassification between categories	**1,725**	**–**	**(9,986)**	**–**	**–**	**–**	**9,101**	**–**	**840**
Reversal of written off	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,339**	**1,339**
Disposals	**–**	**–**	**–**	**–**	**(56)**	**(201)**	**–**	**(7,930)**	**(8,187)**
At 31 March 2013	**496,269**	**12,949,393**	**130,232**	**16,791**	**5,483**	**7,378**	**34,234**	**88,136**	**13,727,916**
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
At 1 April 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
Exchange adjustments	**–**	**(5)**	**–**	**2**	**2**	**3**	**–**	**159**	**161**
Charge for the year	**4,040**	**9,308**	**–**	**1,072**	**693**	**1,159**	**1,976**	**16,335**	**34,583**
Written off	**–**	**–**	**–**	**(8,405)**	**(21)**	**(10)**	**–**	**–**	**(8,436)**
Reversal of written off	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**547**	**547**
Disposals	**–**	**–**	**–**	**–**	**(49)**	**(32)**	**–**	**(5,036)**	**(5,117)**
Impairment loss (Note 3)	**95,088**	**2,617,223**	**25,436**	**–**	**–**	**–**	**4,540**	**6,839**	**2,749,126**
At 31 March 2013	**261,549**	**6,487,475**	**48,660**	**15,818**	**4,225**	**4,994**	**11,027**	**44,089**	**6,877,837**
CARRYING VALUE									
At 31 March 2013	**234,720**	**6,461,918**	**81,572**	**973**	**1,258**	**2,384**	**23,207**	**44,047**	**6,850,079**
At 31 March 2012	332,123	9,091,902	54,779	151	1,261	1,866	13,663	18,217	9,513,962

16. 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. The MPL 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 provided a list of licences that overlap with the Defined Prohibited Areas under the MPL.*

*As at 31 March 2013, four mining concessions (licence no. 2913A, 4322A, 11888A, and 15289A) owned by MoEnCo LLC ("**MoEnCo**"), an indirectly wholly owned subsidiary, have overlapping areas described under the MPL, where mineral exploration and mining are prohibited. 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. There was also no revocation of these licences as at 31 March 2013. 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.*

*In addition, the Group received a letter dated 6 December 2012 from the Mining Ministry of Mongolia for requesting information of its Khushuut Coal Mine for assessment of placing the Khushuut Coal Mine into the list of deposits of strategic importance in Mongolia ("**Strategic Deposits**"). The Minerals Law states that a mineral deposit is of strategic importance if a deposit may have a potential impact on national security, economic and/or social development of the country at regional and/or national levels, or that is capable of producing greater than 5% of the gross domestic product of any given year. Under the said Minerals Law, the size of the government participation is determined largely by the level of state funding which had been provided for the exploration and development of any deposit, with the government of Mongolia entitled to participate up to 50% in the event that there has been a state funding of such deposit and up to 34% if there has not. In the event a Strategic Deposit is ruled, the Mongolian government will negotiate with the entity concerned as to the mode or percentage of the government's participation and it will depend on the results of individual negotiations. It may take the form of production or profit sharing or some other arrangement negotiated between the licence holder and the Mongolian government. Subsequent to the end of reporting period, the Mongolian government has announced that they intend to add the Khushuut Coal Mine into the list of Strategic Deposits for consideration by the Parliament of Mongolia. The Directors consider that the Khushuut Coal Mine does not fit the selection criteria outlined by the Minerals Law and the Group has issued a written objection to the Mongolian government; however the extent of the impact to the Group cannot be ascertained at this stage.*

Hence, the management concluded that there is no further impairment, other than those set out in Note 3 relating to Khushuut Related Assets, amounting to approximately HK$7,735 million as at 31 March 2013. The implementation of the MPL and/or the Mineral Laws 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 compensation received by the Group significantly less than the carrying amount of the related assets and/or the Khushuut Coal Mine is added to the list of Strategic Deposits, the Group would incur a significant impairment loss on the related assets.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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.

17. INVESTMENT PROPERTY

	2013 HK$'000	2012 HK$'000
At beginning of the year	**116,566**	105,264
Fair value gain recognised in the consolidated income statement	**6,870**	7,031
Exchange adjustment	**1,464**	4,271
At end of the year	**124,900**	116,566

The fair value of the Group's investment property at 31 March 2013 has been arrived at the subsequent selling prices as explained below. 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 53 years remaining at 31 March 2013.

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.

On 4 June 2013, the Company entered into two agreements for the disposal of the investment property in Beijing and its associated facilities to an independent third party at an aggregate consideration of RMB100,000,000 (equivalent of HK$124,900,000) (the "Disposal Transaction"). The Disposal Transaction has not been completed as at the date when these consolidated financial statements are approved by the Board of Directors.

18. 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 2011	2,374	–	2,374
Additions	94	–	94
Written off	(145)	–	(145)
Transfer from development in progress (Note 19)	–	1,906,297	1,906,297
At 31 March 2012 and 31 March 2013	**2,323**	**1,906,297**	**1,908,620**
ACCUMULATED AMORTISATION			
At 1 April 2011	1,261	–	1,261
Charge for the year	597	15,886	16,483
Written off	(12)	–	(12)
Impairment loss recognised in profit or loss (Note 3)	–	562,835	562,835
At 31 March 2012 and 1 April 2012	1,846	578,721	580,567
Charge for the year	**363**	**41,299**	**41,662**
Impairment loss recognised in profit or loss (Note 3)	**–**	**373,318**	**373,318**
At 31 March 2013	**2,209**	**993,338**	**995,547**
CARRYING VALUE			
At 31 March 2013	**114**	**912,959**	**913,073**
At 31 March 2012	477	1,327,576	1,328,053

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 licence period and included in the cash generating unit with other Khushuut Related Assets for impairment assessment purpose.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

19. DEVELOPMENT IN PROGRESS

	2013 **HK$'000**	2012 HK$'000
At beginning of the year	**43,777**	1,731,667
Addition	**–**	192,581
Interest expense capitalised (Note 11)	**–**	44,386
Transfer to intangible assets (Note 18)	**–**	(1,906,297)
Transfer to property, plant and equipment (Note 16)	**(840)**	–
Impairment loss recognised in profit or loss (Note 3)	**(12,488)**	(18,560)
At end of the year	**30,449**	43,777

In connection to the exclusive right of use of paved road set out in Note 18, another section of the road of approximately 30 km is under construction and therefore remains as a development in progress and included in the cash generating unit with other Khushuut Related Assets for impairment assessment purpose.

20. EXPLORATION AND EVALUATION ASSETS

	Mining and exploration rights (Note b) HK$'000	**Others** (Note c) HK$'000	**Total** HK$'000
COST			
At 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 and 1 April 2012	285,676	13,530	299,206
Additions	**–**	**8,666**	**8,666**
Written off (Note d)	**–**	**(15,182)**	**(15,182)**
At 31 March 2013	**285,676**	**7,014**	**292,690**

20. EXPLORATION AND EVALUATION ASSETS *(Continued)*

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 has moved to a development phase. As a result, its corresponding exploration and evaluation assets were transferred to property, plant and equipment as mineral properties during the year ended 31 March 2012.

*(b) The balance of mining and exploration rights as at 31 March 2013 solely 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 Company 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 management, there was no revocation of its licences as at 31 March 2013. 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 impairment on the corresponding exploration and evaluation assets as at 31 March 2013 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 condensed consolidated financial statements of the Group. If the Group's iron ore exploration concession is revoked due to the MPL and the Group is paid compensation significantly less than the carrying amount of this concession, the Group would incur a significant impairment loss on the corresponding exploration and evaluation assets.*

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

As at 31 March 2013, the Group confirmed with the Ministry of Environment and Green Department of Mongolia that another 8 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.

(d) Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for two successive periods of 3 years each and mining licences for two successive periods of 20 years each. During the year ended 31 March 2013, the Group has renewed all exploration and mining licences before the expiry date, except for 2 exploration licences, licence no.7460 and 8976, owned by MoEnCo, as the management considers that the respective exploration licences are no longer fruitful. As a result, the corresponding evaluation and exploration assets are written off.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

21. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

	2013 HK$'000	2012 HK$'000
Cost of associates		
Unlisted shares, at cost	9,352	9,352
Share of results	(9,352)	(9,352)
	–	–
Amounts due from associates	18,025	16,143
Impairment losses	(8,755)	(6,243)
	9,270	9,900

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

	2013 HK$'000	2012 HK$'000
Total assets	17,026	17,646
Total liabilities	(100,400)	(89,861)
Net liabilities	(83,374)	(72,215)
Group's share of net assets of associates	–	–
Revenue	–	–
Loss for the year	(11,387)	(36,355)
Group's share of results of associates for the year	–	(6,222)

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:

	2013 HK$'000	2012 HK$'000
Unrecognised share of losses of associates for the year	2,232	1,836
Accumulated unrecognised share of losses of associates	7,323	5,091

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

Details of the associates at 31 March 2013 and 2012 are as follows:

Name	Place of establishment/ incorporation	Particulars of issued/registered share capital	Interest held		Principal activity
			2013	2012	
Upper Easy Enterprises Limited	British Virgin Islands	5 shares of US$1.00 each	**20%**	20%	Inactive
eGuanxi (Cayman) Limited	Cayman Islands	6,667,000 shares of US$1.00 each	**25%**	25%	Inactive
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 2013 (2012: Nil).

The amount due from associates represents shareholder's loans to MoOiCo and OGCHL. That amount is unsecured, interest free and repayable on demand.

22. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2013 HK$'000	2012 HK$'000
At beginning of the year	**–**	3,914
Addition	**–**	2,883
Less: impairment loss	**–**	(6,797)
At end of the year	**–**	–

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.

During the year, the Group had not made any capital contribution (2012: HK$2,883,000).

As at 31 March 2013, the Group had no capital commitments in respect of the addition of financial assets.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

23. PREPAYMENTS FOR EXPLORATION AND EVALUATION EXPENDITURE

The amounts represent prepayments for exploration drilling.

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

	2013 HK$'000	2012 HK$'000
Tractors, motor vehicles and others	–	9,689
Security deposit on contract mining and equipment purchase	–	31,200
Wash plant	6,508	–
	6,508	40,889

25. TRADE RECEIVABLES

	2013 HK$'000	2012 HK$'000
Trade receivables	29	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, which approximated the respective revenue recognition dates.

	2013 HK$'000	2012 HK$'000
1–30 days	–	5,359
31–60 days	4	26
61–90 days	4	4
Over 90 days	21	–
	29	5,389

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$29,000 (2012: HK$30,000) 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.

Ageing of trade receivables which are past due but not impaired:

	2013 HK$'000	2012 HK$'000
Overdue by:		
1–30 days	4	26
31–60 days	4	4
61–90 days	21	–
	29	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.

25. TRADE RECEIVABLES *(Continued)*

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

	2013 HK$'000	2012 HK$'000
US$	**–**	5,345
MNT	**29**	44
	29	5,389

26. INVENTORIES

	2013 HK$'000	2012 HK$'000
Coal	**4,694**	23,571
Materials and supplies	**489**	760
	5,183	24,331

27. HELD-FOR-TRADING INVESTMENTS

	2013 HK$'000	2012 HK$'000
Equity securities of companies listed in Hong Kong	**26,528**	27,169

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

28. CASH AND CASH EQUIVALENTS

	2013 HK$'000	2012 HK$'000
Bank balances and cash	**51,578**	37,360
Short-term bank deposits	**–**	47,603
	51,578	84,963

The weighted average effective interest rate on short-term bank deposits was 0.05% (2012: 0.05%) per annum. The maturity days of the short-term bank deposits ranged from one to five days (2012: one to three days). Cash at bank earns interest at rates based on daily bank deposit rates.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

29. TRADE PAYABLES

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

	2013 HK$'000	2012 HK$'000
Current to 30 days	6,324	23,389
31 to 60 days	852	16,201
61 to 90 days	569	17,512
Over 90 days	61,196	–
	68,941	57,102

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.

The 3% CTF Convertible Note contains two components, a debt component and a conversion option derivative. The effective interest rate of the debt 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 debt component and a derivative component. The effective interest rate of the debt component is 11.92%. The derivative component is measured at fair value with changes in fair value recognised in the consolidated income statement.

30. CONVERTIBLE NOTES *(Continued)*

On 3 November 2010, the Company entered into a subscription agreement with Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited (the "**Subscriber**") under which the Subscriber has conditionally agreed to (i) subscribe for a 3.5% unsecured convertible note in the principal amount of HK$466.8 million (the "**First Note**") and (ii) accept an option exercisable within six months of the issue of the 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 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. The First Note can be converted into 1 ordinary shares of the Company at HK$0.02 each for every HK$2.68 per Company's share (being adjusted conversion price as a result of issuance of 5% convertible notes with principal amount of HK$400,000,000 on 9 January 2013 pursuant to the terms and conditions of the OZ Convertible Note. 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 debt component and a derivative component. The effective interest rate of the debt component is 14.38%. The derivative component is measured at fair value with changes in fair value recognised in the consolidated income statement.

On 9 January 2013, the Company issued a 5% convertible note to each of Golden Infinity and CTF with principal amount of HK$200 million and in aggregate of HK$400 million (the "**5% GI & CTF Convertible Note**"). The 5% GI & CTF Convertible Note has a maturity period of three years from the issue date to 9 January 2016 and can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$0.36 convertible note at the holder's option at any time between the issue date and the maturity date. Interest of 5% per annum will be paid annually in arrears on 9 January.

The 5% GI & CTF Convertible Note contains two components: a debt component and a conversion option derivative. The effective interest rate of the debt component is 18.22%. The derivative component is measured at fair value with changes in fair value recognised in the consolidated income statement.

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

	Debt component		**Derivative component**		**Total**	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
At beginning of the year	**2,233,466**	2,592,235	**285,208**	106,178	**2,518,674**	2,698,413
Initial recognition	**284,715**	1,388,954	**114,590**	611,046	**399,305**	2,000,000
Interest charge	**353,717**	273,389	**–**	–	**353,717**	273,389
Redemption of the Zero Coupon Convertible Note	**–**	(2,000,000)	**–**	–	**–**	(2,000,000)
Amortisation of transaction costs	**6,053**	6,001	**–**	–	**6,053**	6,001
Fair value gain on derivative component	**–**	–	**(302,987)**	(432,016)	**(302,987)**	(432,016)
Interest paid	**(26,822)**	(27,113)	**–**	–	**(26,822)**	(27,113)
At end of the year	**2,851,129**	2,233,466	**96,811**	285,208	**2,947,940**	2,518,674

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

30. CONVERTIBLE NOTES *(Continued)*

Analysed for reporting purposes as:

	2013 **HK$'000**	2012 HK$'000
Current liabilities (Note)	**741,279**	12,310
Non-current liabilities	**2,206,661**	2,506,364
	2,947,940	2,518,674

Note:
The amount in current year represents coupon interest payable and the carrying value of GI Convertible Note, OZ Convertible Note and 5% GI & CTF Convertible Note to the convertible note holders within one year. The amount in 2012 represented 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 2012	**31 March 2013**
Stock price	HK$3.060	HK$0.65	**HK$0.31**
Exercise price	HK$4.000	HK$4.000	**HK$4.000**
Volatility (Note)	55%	110%	**105%**
Dividend yield	0%	0%	**0%**
Option life	3 years	1.44 years	**0.44 years**
Risk free rate	0.541%	0.18%	**0.07%**

Note:
The volatility used in the model was determined by using the historical volatility of the Company's share price.

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 2013, the debt component of the convertible note is HK$294,657,000 (2012: HK$272,065,000) and the fair value of the derivative component of the convertible note is HK$2,000 (2012: HK$6,497,000). No conversion was noted during the year ended 31 March 2013.

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 2012	**31 March 2013**
Stock price	HK$2.910	HK$0.65	**HK$0.31**
Exercise price	HK$3.400	HK$3.140	**HK$2.680**
Volatility (Note)	88%	110%	**105%**
Dividend yield	0%	0%	**0%**
Option life	3 years	1.62 years	**0.62 years**
Risk free rate	0.603%	0.19%	**0.12%**

Note:
The volatility used in the model was determined by using the historical volatility of the Company's share price.

30. CONVERTIBLE NOTES *(Continued)*

OZ Convertible Note *(Continued)*

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 2013, the debt component of the convertible note is HK$441,940,000 (2012: HK$396,326,000) and the fair value of the derivative component of the convertible note is HK$187,000 (2012: HK$19,773,000). No conversion was noted during the year ended 31 March 2013.

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	**31 March 2013**
Stock price	HK$1.22	HK$0.65	**HK$0.31**
Exercise price	HK$2.00	HK$2.00	**HK$2.00**
Volatility (Note)	94%	110%	**105%**
Dividend yield	0%	0%	**0%**
Option life	3 years	2.21 years	**1.21 years**
Risk free rate	0.688%	0.24%	**0.15%**

Note:
The volatility used in the model was determined by using the historical volatility of the Company's share price.

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 2013, the debt component of the convertible note is HK$1,818,827,000 (2012: HK$1,565,075,000) and the fair value of the derivative component of the convertible note is HK$20,479,000 (2012: HK$258,938,000). No conversion was noted during the year ended 31 March 2013.

5% GI & 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:

	9 January 2013	**31 March 2013**
Stock price	HK$0.48	**HK$0.31**
Exercise price	HK$0.36	**HK$0.36**
Volatility (Note)	59.7%	**60%**
Dividend yield	0%	**0%**
Option life	3 years	**2.8 years**
Risk free rate	0.18%	**0.26%**

Note:
The volatility used in the model was determined by using the historical volatility of the Company's share price.

The fair value of the 5% GI & 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$400,000,000. As at 31 March 2013, the debt component of the convertible note is HK$295,705,000 and the fair value of the derivative component of the convertible note is HK$76,143,000. No conversion was noted during the year ended 31 March 2013.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

31. OTHER LOAN

Amount represents a short term unsecured loan with principal amount of HK$50 million and repayable within 1 year. The interest expense is charged at the prevailing prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited per annum ("Prime Rate").

32. DEFERRED TAXATION

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

	HK$'000
At 1 April 2011	–
Credit to the consolidated income statement	7,385
At 31 March 2012	7,385
Charged to the consolidated income statement	**(7,385)**
At 31 March 2013	**–**

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 2013, estimated tax losses of the Group not utilised amounted to HK$544,591,000 (2012: HK$251,839,000). 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$437,636,000 (2012: HK$154,669,000) 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$1,315,091,000 (2012: HK$689,260,000) due to the impairment loss recognised on Khushuut Related Assets and HK$109,233,000 (2012: Nil) due to the allowance for inventory. 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.

33. SHARE CAPITAL

Authorised and issued share capital

	2013 HK$'000	2012 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.02 each	**300,000**	300,000

	Number of ordinary shares at HK$0.02 each	**Amount** HK$'000
Issued and fully paid:		
At 1 April 2011	6,606,547,828	132,131
Issue of shares		
Placement of new shares (Note)	**150,000,000**	**3,000**
At 31 March 2012 and 31 March 2013	**6,756,547,828**	**135,131**

Note:
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 HK$117,500,000. These new shares rank pari passu in all respect with the existing shares.

34. SHARE BASED PAYMENT

Equity settled share option scheme

Under the share option schemes adopted by the Company on 28 August 2002 ("**2002 Share Option Scheme**") and 30 August 2012 respectively, 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. The 2002 Share Option Scheme was expired and terminated on 27 August 2012.

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

	2013		2012	
	Weighted average exercise price per share HK$	Number of share options	Weighted average exercise price per share HK$	Number of share options
Exercisable at beginning of the year	1.3886	67,300,000	3.6979	18,550,670
Granted	–	–	0.81	55,500,000
Lapsed	–	–	2.9776	(6,750,670)
Exercisable at end of the year	1.3886	67,300,000	1.3886	67,300,000

No share options were exercised during the year (2012: Nil).

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:

			Number of shares subject to options	
Date of grant	Exercise price HK$	Exercisable period	2013	2012
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	5,000,000
29-2-2012	0.810	29-2-2012 to 28-2-2017	50,500,000	50,500,000
			67,300,000	67,300,000

The fair values of options granted determined were 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$1.948	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.

No option was granted therefore no expense in relation to share options granted was recognised during the year ended 31 March 2013 (2012: HK$22,569,000).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

35. MAJOR NON-CASH TRANSACTION

During the year ended 31 March 2012, a non-cash transaction had 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

As at 31 March 2013, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office and staff quarters as follows:

	2013 **HK$'000**	2012 HK$'000
Not later than one year	**6,078**	15,598
Later than one year and not later than five years	**166**	13,050
	6,244	28,648

Operating leases related to offices and staff quarters with lease terms of between 1 to 5 years (2012: 1 to 5 years).

(b) Capital commitments

As at 31 March 2013, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to approximately HK$83,771,000 (2012: HK$99,450,000). These commitments are for the following projects:

	2013 **HK$'000**	2012 HK$'000
Dry processing	**12,665**	–
Exploration drilling (Note 20)	**23,706**	21,637
Other exploration related commitments	**753**	526
Power plant design	**856**	786
Purchase of property, plant and equipment	**785**	35,360
Road construction (Note 19)	**29,025**	28,830
Road improvement and drilling equipment transport (Note 20)	**11,771**	10,743
Wash plant	**3,851**	–
Others	**359**	1,568
	83,771	99,450

37. CONTINGENT LIABILITIES

During the year, the Company and MoEnCo disputed the scopes of service provided by the former sole mining contractor and disagreed on the amount charged and the quality of services provided under the former mining contract and accordingly, refused to settle the contractor fees as claimed by former sole mining contractor.

The former sole mining contractor issued two writ of summons on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK$107.7 million of which approximately HK$50.0 million has been provided for in the consolidated financial statements as at 31 March 2013. Based on opinion provided by the legal counsel, the Directors consider that the payment of the remaining balance is not probable. Up to the date of these consolidated financial statements, the dispute is still in progress.

38. RELATED PARTY TRANSACTIONS

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

(a) Advances from Mr. Lo

	2013 HK$'000	2012 HK$'000
Balance of advances	**470,013**	479,548
Interest paid/payable	**33,499**	18,064

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 Prime Rate plus 3% starting from 1 November 2012 (2012: Prime Rate).

(b) Convertible notes payable and interest on convertible notes payable to a related party – Golden Infinity

	2013 HK$'000	2012 HK$'000
Convertible notes payable	**480,582**	278,562
Interest expense	**12,747**	10,715

Note:
Mr. Lo has a controlling interest in Golden Infinity. Details of the GI Convertible Note and 5% GI & CTF Convertible Note are set out in Note 30.

(c) Key management compensation

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

	2013 HK$'000	2012 HK$'000
Basic salaries, other allowances and benefits in kind	**6,238**	15,752
Equity settled share based payments	**–**	14,107
Contributions to MPF Scheme	**15**	48
	6,253	29,907

Note:
During the year ended 31 March 2013, no share options were granted to the Group's key management (2012: 35,000,000). Such options were immediately vested on date of grant. The fair values of the total options determined at the date of grant were using either the Binomial or Trinomial Valuation model.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 March 2013

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 March 2013 and 2012:

Name of subsidiaries	Place of incorporation	Particulars of issued share capital	Effective interest held		Place of operation	Principal activities
			2013	2012		
Cyber Network Technology Limited*	British Virgin Islands	1 share of US$1.00	100%	100%	Hong Kong	Investment holding
Gamerian Limited*	British Virgin Islands	1 share of US$1.00	100%	100%	Hong Kong	Investment holding
Mongolia Energy Corporation (Greater China) Limited	Hong Kong	2 shares of HK$1.00 each	100%	100%	Hong Kong	Management services
Virtue Team Investments Limited*	Hong Kong	1 share of HK$1.00	100%	100%	Hong Kong	Management services
Mongolia Energy Corporation Services Limited	Hong Kong	2 shares of HK$1.00 each	100%	100%	Hong Kong	Provision of secretarial and nominee services
MoEnCo LLC	Mongolia	1,010,000 shares of US$1.00 each	100%	100%	Mongolia	Minerals exploration and mining activities
Zvezdametrika LLC	Mongolia	100,000 shares of US$1.00 each	100%	100%	Mongolia	Holding iron ore exploration licences

* *Subsidiaries directly held by the Company*

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 or at any time during 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 and revised to HK$25,000 per month starting from 1 June 2012. 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.

The employees of the Group's subsidiaries which operate in Mongolia are required to participate in the social insurance scheme operated by the local government. According to the "Social Insurance Law of Mongolia", these subsidiaries have a duty to withhold 10% from employees' salary or similar income and 13% as employers' contribution. Employers' contributions are charged to profit or loss as they become payable in accordance with the social insurance scheme.

Financial Information of the Company

	2013 HK$'000	2012 HK$'000
Assets		
Unlisted investments in subsidiaries	**285,730**	285,730
Amount due from subsidiaries	**1,497,102**	2,107,019
Other assets	**6,461,951**	9,153,385
Total assets	**8,244,783**	11,546,134
Liabilities		
Amount due to subsidiaries	**214,769**	214,776
Other liabilities	**3,513,316**	3,041,121
Total liabilities	**3,728,085**	3,255,897
Net assets	**4,516,698**	8,290,237
Financed by:		
Equity		
Capital and reserves attributable to owners of the Company		
Share capital	**135,131**	135,131
Reserves	**4,381,567**	8,155,106
	4,516,698	8,290,237

Financial Information of the Company *(Continued)*

RESERVES

	Share premium	Contributed surplus (Note)	Capital reserve	Share options reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 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 and 1 April 2012	13,107,506	199,594	–	62,037	(5,214,031)	8,155,106
Loss for the year	**–**	**–**	**–**	**–**	**(3,773,539)**	**(3,773,539)**
Balance at 31 March 2013	**13,107,506**	**199,594**	**–**	**62,037**	**(8,987,570)**	**4,381,567**

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.

Five Years Summary of Results, Assets and Liabilities

	Results of the Group for the year ended March 31				
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000	**2013** **HK$'000**
Turnover					
Continuing operations	9,076	—	—	6,215	**11,792**
Discontinued operation	2,005	2,392	—	—	**—**
Loss attributable to owners of the Company	(438,387)	(317,405)	(310,750)	(4,832,172)	**(3,698,818)**
Loss per share (HK cents)					
— Basic	(7.25)	(5.22)	(5.02)	(73.04)	**(54.74)**
— Diluted	(7.25)	(5.22)	(5.02)	(73.04)	**(54.74)**

	Assets and liabilities of the Group at March 31				
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000	**2013** **HK$'000**
Total assets	15,047,269	15,169,958	15,907,265	11,543,781	**8,336,858**
Less: total liabilities	(1,787,976)	(2,020,980)	(2,833,106)	(3,198,467)	**(3,690,756)**
Total net assets	13,259,293	13,148,978	13,074,159	8,345,314	**4,646,102**

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
26 Burnaby Street
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Bermuda

BRANCH SHARE REGISTRAR

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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 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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