THIS CIRCULAR IS IMPORTANT AND REQUIRES OUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Mongolia Energy Corporation Limited (the "**Company**"), you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF THE GI CONVERTIBLE NOTE; AND (2) WHITEWASH WAIVER IN RELATION TO THE GI CONVERTIBLE NOTE

Financial adviser to the Company

taifook 大福 capital 融資

Member of Haitong Securities

Independent financial adviser to the independent board committee and independent shareholders of the Company

SOMERLEY LIMITED

A letter from the independent board committee of the Company containing its recommendation to the independent shareholders of the Company is set out on page 18 of this circular. A letter from Somerley Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of the Company is set out on pages 19 to 31 of this circular.

A notice convening a special general meeting of the Company to be held at JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 30 August 2010 at 3:15 p.m. (or immediately after the conclusion or adjournment of the annual general meeting which is to be convened on the same day and at the same place at 2:30 p.m.) is set out on pages 108 to 109 of this circular. Whether or not you intend to attend the meeting, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish.

30 July 2010

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In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"Announcement"	the announcement of the Company dated 29 April 2010 in relation to the Subscription and the Whitewash Waiver
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (excluding Saturday, Sunday and any public holiday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
"Company"	Mongolia Energy Corporation Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange
"Concert Group"	the Subscriber, CTF Nominee, Dragon Noble Group Limited, Mr. Lo and his spouse, Dato' Dr. Cheng Yu Tung, Dr. Cheng Kar Shun and his spouse
"connected person"	has the meaning ascribed thereto under the Listing Rules
"CTF Nominee"	Chow Tai Fook Nominee Limited, a company incorporated in Hong Kong, which was controlled by Dato' Dr. Cheng Yu Tung and held 220,000,000 Shares and 2008 CTF Convertible Note as at the Latest Practicable Date
"Director(s)"	director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"GI Conversion Price"	the initial conversion price of HK$4 per GI Conversion Share (subject to adjustments)

"GI Conversion Shares"	the new Shares to be issued by the Company as a result of the exercise of the conversion rights attaching to the GI Convertible Note
"GI Convertible Note"	a convertible note in the principal amount of HK$300,000,000 proposed to be issued by the Company pursuant to the Subscription Agreement
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Peter Pun, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu, established for the purpose of advising the Independent Shareholders in relation to the Subscription and the Whitewash Waiver
"Independent Shareholders"	Shareholders other than (1) members of the Concert Group and their respective associates; and (2) those who are involved or interested in the Subscription or the Whitewash Waiver
"Last Trading Day"	27 April 2010, being the last trading day of the Shares on the Stock Exchange prior to the release of the Announcement
"Latest Practicable Date"	27 July 2010, being the latest practicable date prior to the date of this circular for ascertaining certain information for inclusion in this circular
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Lo"	Mr. Lo Lin Shing, Simon, Chairman of the Company and an executive Director and a substantial shareholder of the Company
"PRC"	the People's Republic of China
"Relevant Period"	the period commencing six months preceding 29 April 2010, being the date of the Announcement, and ending on the Latest Practicable Date
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"SGM"	the special general meeting of the Company to be convened on 30 August 2010 at 3:15 p.m. (or immediately after the conclusion or adjournment of the annual general meeting which is to be convened on the same day and at the same place at 2:30 p.m.) to consider and, if thought fit, to approve the transactions contemplated under the Subscription Agreement (including but not limited to the issue of the GI Convertible Note, and the issue and allotment of the GI Conversion Shares upon exercise of the conversion rights attaching to the GI Convertible Note) and the Whitewash Waiver
"Share(s)"	ordinary share(s) of HK$0.02 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Somerley"	Somerley Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Golden Infinity Co., Ltd., a company incorporated in the British Virgin Islands, which was wholly and beneficially owned by Mr. Lo and held 1,194,029,301 Shares as at the Latest Practicable Date
"Subscription"	the subscription of the GI Convertible Note in the principal amount of HK$300,000,000 by the Subscriber on the terms and conditions of the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 27 April 2010 entered into between the Company and the Subscriber in relation to the Subscription
"Takeovers Code"	Hong Kong Code on Takeovers and Mergers

"Whitewash Waiver"	a waiver of the obligation of the Concert Group to make a mandatory general offer for all the issued securities of the Company other than those already owned (or agreed to be acquired) by the Concert Group under Rule 26 of the Takeovers Code as a result of the issue of new Shares on conversion of the GI Convertible Note
"2008 CTF Convertible Note"	the outstanding zero coupon convertible note due 30 April 2011 in the principal amount of HK$2,000,000,000 issued by the Company on 30 April 2008, details of which are set out in the announcement of the Company dated 1 February 2008
"2008 Puraway Convertible Bond"	the outstanding 3% convertible bond due 29 January 2011 in the principal amount of HK$142,500,000 issued by the Company on 29 January 2008, details of which are set out in the circular of the Company dated 22 March 2007
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

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

Non-executive Director:
Mr. To Hin Tsun, Gerald

Independent non-executive Directors:
Mr. Peter Pun *OBE JP*
Mr. Tsui Hing Chuen, William *JP*
Mr. Lau Wai Piu

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
40th and 41st Floors
New World Tower 1
16-18 Queen's Road Central
Hong Kong

30 July 2010

To the Shareholders and, for information only, holders of the convertible notes of the Company

Dear Sir or Madam,

(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF THE GI CONVERTIBLE NOTE; AND (2) WHITEWASH WAIVER IN RELATION TO THE GI CONVERTIBLE NOTE

INTRODUCTION

On 29 April 2010, the Board announced that on 27 April 2010 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber conditionally agreed to subscribe for the GI Convertible Note in an aggregate principal amount of HK$300,000,000.

Completion of the Subscription Agreement is conditional upon, among other things, the Whitewash Waiver being approved by the Independent Shareholders and granted by the Executive. An application has been made by the Subscriber to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be made subject to the approval of the Independent Shareholders on a vote taken by way of a poll.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Peter Pun, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu, has been established to advise the Independent Shareholders in relation to the Subscription and the Whitewash Waiver. The non-executive Director, Mr. To Hin Tsun, Gerald ("**Mr. To**"), is not included in the Independent Board Committee as (i) Mr. To had, through T.S. Tong & Co. solicitors of which he was previously a partner and is currently a consultant, rendered professional legal services to certain members of the Concert Group over the years including the past 12 months; and (ii) Mr. To is currently an executive director of International Entertainment Corporation (stock code: 8118) and a non-executive director of NWS Holdings Limited (stock code: 659) (the controlling shareholder of both of which being Cheng Yu Tung Family (Holdings) Limited). The letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver is set out on page 18 of this circular.

Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver. The letter from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver is set out on pages 19 to 31 of this circular.

The purpose of this circular is to give you (a) further information on the Subscription Agreement and the Whitewash Waiver; (b) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; (c) the letter of advice from Somerley to the Independent Board Committee and Independent Shareholders in relation to the Subscription and the Whitewash Waiver; and (d) other information as required under the Listing Rules and Takeovers Code.

THE SUBSCRIPTION AGREEMENT

The Subscription Agreement contains the principal terms set out below:

Parties: The Company, as issuer
The Subscriber

Subscription Agreement: On 27 April 2010 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber conditionally agreed to subscribe for the GI Convertible Note in the principal amount of HK$300,000,000 on the terms and conditions of the Subscription Agreement.

Conditions precedent:

Completion of the Subscription Agreement is conditional upon:

(a) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the GI Conversion Shares;

(b) all necessary consents, approvals (or waivers), authorisation, permission or exemption from any third parties, including but not limited to government or regulatory authorities, having been obtained by the Company in connection with the Subscription, issue of the GI Convertible Note and the GI Conversion Shares;

(c) if required, the Bermuda Monetary Authority having approved the issue of the GI Convertible Note and the allotment and issue of the GI Conversion Shares upon the exercise of the conversion rights or otherwise pursuant to the conditions of the GI Convertible Note and the GI Conversion Shares;

(d) the passing of the requisite resolution(s) by the relevant Shareholders at a general meeting of the Company approving the transactions contemplated under the Subscription Agreement and the Whitewash Waiver; and

(e) the Whitewash Waiver having been granted by the Executive.

None of the above conditions precedent can be waived.

Completion:

Completion of the Subscription shall take place on the third Business Day after fulfillment of the conditions precedent set out above or such other date as may be agreed between the parties to the Subscription Agreement in writing no later than 30 September 2010 (or such other date as the parties to the Subscription Agreement may agree in writing) (the "**Completion Date**").

Termination:

If any of the following events occurs at any time prior to 9:30 a.m. on the Completion Date, the Subscriber may, by giving a written notice to the Company, rescind the Subscription Agreement if in the reasonable opinion of the Subscriber, the Subscription would be materially and adversely affected by:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Subscriber materially and adversely affect the business or the financial position of the Group as a whole; or

(b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the Subscription Agreement, of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Subscriber, materially and adversely affect the business or the financial position of the Group as a whole.

Upon the giving of such notice by the Subscriber, all obligations of the Subscriber under the Subscription Agreement shall cease and determine and no party to the Subscription Agreement shall have any claim against the other in respect of any matter or thing arising out of or in connection with the Subscription Agreement.

The Subscriber is an investment holding company wholly and beneficially owned by Mr. Lo. As at the Latest Practicable Date, the Subscriber held 1,194,029,301 Shares, representing approximately 19.56% of the total issued share capital of the Company as at the Latest Practicable Date.

Principal terms of the GI Convertible Note

Set out below are the principal terms of the GI Convertible Note:

Aggregate principal amount of the GI Convertible Note:	HK$300,000,000
Authorised denomination for conversion and transfer:	HK$10,000,000 or integral multiples thereof (save that if at any time the principal outstanding amount of the GI Convertible Note is less than HK$10,000,000, the whole (but not part only) of the principal outstanding amount of the GI Convertible Note may be converted)
Maturity date:	The third anniversary of the date of issue of the GI Convertible Note (or such later date consented by the holder of the GI Convertible Note)
Conversion rights and conversion period:	The holder of the GI Convertible Note shall have the right to convert all or part of the outstanding principal amount of the GI Convertible Note into Shares at the GI Conversion Price on any Business Day from the date of issue of the GI Convertible Note and up to the Business Day immediately prior to the maturity date.
Conversion price:	Initially, HK$4 per GI Conversion Share, subject to adjustments in certain events, including share consolidation, share subdivision, capitalisation issues, capital distribution or grant of rights to Shareholders to acquire for cash assets of the Company or its subsidiaries, rights issue of Shares or options or warrants or other rights over Shares, and other equity or equity derivatives issues
Interest rate:	3.5% per annum, payable annually in arrears
Transferability:	The GI Convertible Note is transferrable in authorised denominations. The GI Convertible Note may not be assigned or transferred to a connected person of the Company without the prior written consent of the Company. Any transfer of the GI Convertible Note is subject to (i) the Listing Rules for so long as the Shares are listed on the Stock Exchange (and the rules of any other stock exchange on which the Shares may be listed at the relevant time) and all applicable laws and regulations; (ii) the approval of Shareholders in a general meeting if so required under the Listing Rules if such transfer is proposed to be made to a connected person of the Company.

Voting:	The holder of the GI Convertible Note will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being a holder of the GI Convertible Note.
Listing:	No application will be made for the listing of the GI Convertible Note on the Stock Exchange or any other stock exchange. Application will be made by the Company for the listing of, and permission to deal in, the GI Conversion Shares to be issued upon the exercise of the conversion rights attaching to the GI Convertible Note.
Ranking:	The obligations of the Company under the GI Convertible Note are unsecured. The GI Conversion Shares to be issued upon the exercise of the conversion rights attaching to the GI Convertible Note will rank pari passu in all respects with all other Shares outstanding at the date of exercise of the conversion rights and be entitled to all dividends and other distributions the record date for which falls on a date on or after the date of exercise of the conversion rights.
Restriction on the exercise of conversion rights:	The Company shall be entitled (without penalty on any right of recourse by the holder of the GI Convertible Note) to disregard any conversion notice and the conversion rights thereunder and the Company shall not be obliged to issue any GI Conversion Shares, if and to the extent the issue of the relevant GI Conversion Shares would lead to an insufficient public float for the Shares (as required under the Listing Rules).

Early redemption and repurchase:

The Company shall redeem at 100% of the outstanding principal amount on the maturity date.

The Company may, at any time prior to the maturity date by giving not less than five Business Days and not more than ten Business Days prior notice to the holder of the GI Convertible Note, redeem on any Business Day prior to maturity date the whole or part of the principal amount of the GI Convertible Note at any amount equal to the aggregate of the principal amount to be redeemed and any unpaid interest accrued thereon from the date of issue of the GI Convertible Note up to (but excluding) the date of redemption.

The Company or any of its subsidiaries may at any time and from time to time repurchase the GI Convertible Note at any price as may be agreed between the Company or such subsidiary and the holder of the GI Convertible Note. Any GI Convertible Note so purchased shall forthwith be cancelled by the Company.

Events of default:

Holder(s) of at least 75% of the principal amount of the GI Convertible Note then outstanding may require immediate redemption of the GI Convertible Note at their principal amount together with interest accrued thereon and unpaid up to (and excluding) the date of redemption if any of the following events occurs: (i) the listing of the Shares on the Stock Exchange ceases or is suspended for a continuous period of 21 Business Days on which the Stock Exchange is generally open for trading due to the default of the Company or any of its directors, officers or employees; (ii) default in payment under the GI Convertible Note; (iii) on the occurrence of certain insolvency or bankruptcy related events relating to the Company, or if the Company ceases or threatens to cease to carry on its business or any substantial part thereof; (iv) revocation or withdrawal or modification of consents, licence, approval or authorisation which materially and adversely affects the ability of the Company to perform its obligations under the GI Convertible Note; or (v) if it becomes impossible or unlawful in Hong Kong for the Company to fulfil its payment obligations under the GI Convertible Note.

Upon full conversion of the HK$300,000,000 principal amount of the GI Convertible Note at the initial GI Conversion Price, a total of 75,000,000 GI Conversion Shares will be issued, representing approximately 1.23% of the total existing issued share capital of the Company and approximately 1.21% of the Company's total issued share capital as enlarged by the issue of 75,000,000 GI Conversion Shares.

GI Conversion Price

The initial GI Conversion Price, being HK$4 per Share, represents:

(i) a premium of approximately 8.99% over the closing price of HK$3.670 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 8.99% over the average of the closing prices of HK$3.670 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;

(iii) a premium of approximately 7.12% over the average of the closing prices of HK$3.734 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 38.89% over the closing price of HK$2.880 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 85.61% over the audited consolidated net assets value of the Company attributable to the Shareholders of approximately HK$2.155 per Share as at 31 March 2010 (based on the audited consolidated net assets of the Company attributable to the Shareholders of approximately HK$13,148,921,000 and 6,102,897,828 Shares in issue as at 31 March 2010).

The initial GI Conversion Price was determined with reference to the prevailing market price of the Shares, the operation and financial performance of the Group and the current market conditions and was negotiated on an arm's length basis between the Company and the Subscriber.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, there were outstanding (i) the 2008 Puraway Convertible Bond which was issued to Puraway Holdings Limited pursuant to the transactions as set out in the announcement of the Company dated 7 February 2007 and (ii) the 2008 CTF Convertible Note issued to CTF Nominee which was the subject of the announcement of the Company dated 1 February 2008. As at the Latest Practicable Date, there were also outstanding share options granted by the Company under its share option scheme to the directors and employees of the Group to subscribe for an aggregate of 22,100,670 Shares (including options to Mr. Lo to subscribe for 6,000,000 Shares). Save as disclosed above, as at the Latest Practicable Date, there were no other outstanding options, warrants, derivatives, or other securities which carried rights to subscribe for or be converted into Shares. There may also fall to be issued up to a maximum of 100,000,000 new Shares to Mr. Liu Cheng Lin following completion of the acquisition which was the subject of the circular of the Company dated 31 October 2008.

The table below illustrates the shareholding structure of the Company as at the Latest Practicable Date and the shareholding structures of the Company under the following scenarios (assuming that there is no other change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date up to the occurrence of the events mentioned below):

(A) immediately after full conversion of the GI Convertible Note at the initial GI Conversion Price;

(B) immediately after full conversion of the 2008 CTF Convertible Note at the initial conversion price of HK$7.3 per Share;

(C) immediately after full conversion of the GI Convertible Note at the initial GI Conversion Price and full conversion of the 2008 CTF Convertible Note at the initial conversion price of HK$7.3 per Share; and

(D) immediately after full conversion of the GI Convertible Note at the initial GI Conversion Price, full conversion of the 2008 CTF Convertible Note at the initial conversion price of HK$7.3 per Share, full conversion of the 2008 Puraway Convertible Bond at the initial conversion price of HK$0.285 per Share, exercise of all the existing outstanding share options of the Company granted pursuant to the Company's share option scheme and issue of 100,000,000 new Shares (being the maximum number of Shares that may be issued to Mr. Liu Cheng Lin following completion of the acquisition which was the subject of the circular of the Company dated 31 October 2008).

Shareholders	As at the Latest Practicable Date		Scenario A		Scenario B		Scenario C		Scenario D	
	Number of Shares	*% (approximately)*	*Number of Shares*	*% (approximately)*	*Number of Shares*	*% (approximately)*	*Number of Shares*	*% (approximately)*	*Number of Shares*	*% (approximately)*
The Concert Group										
The Subscriber and its associates *(Note 1)*	1,200,739,301	19.67	1,275,739,301	20.65	1,200,739,301	18.83	1,275,739,301	19.77	1,281,739,301	18.12
Chow Tai Fook Nominee Limited and its associates *(Note 2)*	225,000,000	3.69	225,000,000	3.64	498,972,602	7.82	498,972,602	7.73	498,972,602	7.05
Dragon Noble Group Limited and its associates *(Note 3)*	394,670,000	6.47	394,670,000	6.39	394,670,000	6.19	394,670,000	6.12	394,670,000	5.58
Subtotal	1,820,409,301	29.83	1,895,409,301	30.68	2,094,381,903	32.84	2,169,381,903	33.62	2,175,381,903	30.75
Puraway Holdings Limited and Mr. Liu Cheng Lin *(Note 4)*	925,000,000	15.15	925,000,000	14.97	925,000,000	14.51	925,000,000	14.34	1,525,000,000	21.56
Other directors of the Group *(Note 5)*	7,283,200	0.12	7,283,200	0.12	7,283,200	0.11	7,283,200	0.11	10,283,349	0.14
Public Shareholders	3,350,555,327	54.90	3,350,555,327	54.23	3,350,555,327	52.54	3,350,555,327	51.93	3,363,655,848	47.55
Total	6,103,247,828	100.00	6,178,247,828	100.00	6,377,220,430	100.00	6,452,220,430	100.00	7,074,321,100	100.00

Notes:

1. Among the 1,200,739,301 Shares, 4,960,000 Shares were held by Mr. Lo, 1,194,029,301 Shares were held by the Subscriber (which is wholly and beneficially owned by Mr. Lo), and 1,750,000 Shares were held by the spouse of Mr. Lo as at the Latest Practicable Date.

2. CTF Nominee is a company controlled by Dato' Dr. Cheng Yu Tung. It is also the holder of the 2008 CTF Convertible Note. Among the 225,000,000 Shares, 220,000,000 Shares were held by CTF Nominee and 5,000,000 Shares were held by Dato' Dr. Cheng Yu Tung as at the Latest Practicable Date.

3. Dragon Noble Group Limited is a company controlled by Dr. Cheng Kar Shun. Among the 394,670,000 Shares, 325,570,000 Shares were held by Dragon Noble Group Limited and 69,100,000 Shares were held by the spouse of Dr. Cheng Kar Shun as at the Latest Practicable Date.

4. Puraway Holdings Limited is a company controlled by Mr. Liu Cheng Lin. It was a substantial shareholder of the Company and also the holder of the 2008 Puraway Convertible Bond as at the Latest Practicable Date.

5. Other directors of the Group, other than Mr. Lo and his associates.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Company is an energy and resources developer. The Group is currently focusing on the development of its initial coking coal mining project in Khushuut, Khovd Province, western Mongolia.

To facilitate transportation of coal, the Group has completed substantially the road foundation work to link the mine site at Khushuut with the Yarant/Takeshenken border crossing at Xinjiang, the PRC, some 310 kilometers away. To consolidate the road foundation already built for better running of vehicles and maintenance, the Group had on 9 April 2010 entered into a road surface contract consisting principally of asphalt pavement of the roadway and construction of some surface stations along the roadway of approximately 340 kilometers with an independent contractor for RMB488,240,940. The road surface pavement is expected to be completed this year to facilitate the transportation of coking coal. The Group finalized and entered into a 6-year mining contract with Leighton LLC for the coking coal mining project in Khushuut.

The Group has commenced its initial mining operation at Khushuut.

Prior to actual commencement of the commercial mining production, additional capital is anticipated for necessary infrastructures including paving the road surface and for the operation as mentioned above. It is therefore necessary for the Company to have additional working capital and funding for various expenses relating to its mining operation.

After taking into account that: (i) the lending interest rate of bank financing (if and to the extent available) will not be attractive as compared to the GI Convertible Note; (ii) the issue of the GI Convertible Note will not lead to an immediate dilution on the shareholding interests of the existing Shareholders compared with a placing of new Shares; (iii) fund raising through rights issue, open offer and placing of new Shares may also attract a higher transaction cost such as underwriting and other fees; and (iv) the provision of funding through the subscription of the GI Convertible Note by the Subscriber and the premium to current market price implied in the initial GI Conversion Price evidence the confidence by Mr. Lo (as Chairman, executive director and substantial shareholder of the Company) in the business of the Group prior to actual commercial production, the executive Directors consider that the issue of the GI Convertible Note is an appropriate means for the Company to obtain financing.

In view of the above, the Directors consider that the terms of the Subscription Agreement are on normal commercial terms and fair and reasonable, and the transactions contemplated under the Subscription Agreement are in the interests of the Company and the Shareholders as a whole.

The net proceeds of the GI Convertible Note are estimated to be approximately HK$296 million which will be used for general working capital of the Group including financing the road surface pavement and mining operation expenses of the Group.

FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

The Company has not conducted any fund raising activities in the 12 months prior to the date of the Announcement.

LISTING RULES IMPLICATIONS

As the Subscriber is a substantial shareholder of the Company and is wholly and beneficially owned by Mr. Lo who is an executive Director, the Subscriber is a connected person of the Company and the Subscription constitutes a connected transaction for the Company and is subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Mr. Lo has a material interest in the Subscription and has abstained from voting on the Board resolution approving the Subscription Agreement.

The GI Convertible Note is proposed to be issued pursuant to a specific mandate to be granted by the Independent Shareholders at the SGM.

Members of the Concert Group and their respective associates and those who are involved or interested in the Subscription or the Whitewash Waiver will abstain from voting on the resolution to approve the transactions contemplated under the Subscription Agreement at the SGM in respect of all their Shares. So far as the Company is aware after having made all reasonable enquiries, as at the Latest Practicable Date, members of the Concert Group and their respective associates and those who are involved or interested in the Subscription or the Whitewash Waiver were beneficially interested in an aggregate of 1,820,409,301 Shares (representing approximately 29.83% of the entire existing issued share capital of the Company), being the number of Shares in respect of which they will control or will be entitled to exercise control over the voting rights at general meeting of the Company. As at the Latest Practicable Date, (i) no voting trust or other agreement or arrangement or understanding (other than an outright sale) had been entered into by or binding upon any of such persons, and (ii) there was no obligation or entitlement of any of such persons whereby any of such persons had or might have temporarily or permanently passed control over the exercise of the voting right in respect of its/his/her Shares to a third party, either generally or on a case-by-case basis.

WHITEWASH WAIVER

The Subscriber, Mr. Lo and his spouse, CTF Nominee, Dragon Noble Group Limited, Dato' Dr. Cheng Yu Tung, Dr. Cheng Kar Shun and his spouse are parties acting in concert with each other in respect of the Company. As at the Latest Practicable Date, the Concert Group held an aggregate of 1,820,409,301 Shares, representing approximately 29.83% of the total voting rights of the Company.

Completion of the Subscription Agreement is conditional upon, among other things, the Whitewash Waiver being approved by the Independent Shareholders and granted by the Executive. Upon full conversion of the HK$300,000,000 principal amount of the GI Convertible Note at the initial GI Conversion Price and assuming no other change to the share capital and shareholding structure of the Company, the Concert Group will hold approximately 30.68% of the voting rights of the Company. Under Rule 26 of the Takeovers Code, the acquisition of voting rights under such circumstances will trigger a mandatory general offer by the Concert Group for all the securities of the Company other than those already owned (or agreed to be acquired) by the Concert Group, unless an appropriate waiver is available. An application has been made by the Subscriber to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be made subject to the approval of the Independent Shareholders on a vote taken by way of a poll. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders at the SGM by way of poll. Members of the Concert Group and their respective associates and those who are involved or interested in the Subscription or the Whitewash Waiver will abstain from voting on the resolution to approve the Whitewash Waiver at the SGM.

If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Subscription Agreement will not become unconditional and the Subscription will not proceed.

SGM

Set out on pages 108 to 109 is a notice convening the SGM to be held at JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 30 August 2010 at 3:15 p.m. (or immediately after the conclusion or adjournment of the annual general meeting which is to be convened on the same day and at the same place at 2:30 p.m.) at which ordinary resolutions will be proposed to consider and, if thought fit, to approve the transactions contemplated under the Subscription Agreement and the Whitewash Waiver.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on page 18 of this circular and the letter from Somerley on pages 19 to 31 of this circular which contains their advice to the Independent Board Committee and the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver as well as the principal factors and reasons taken into consideration in arriving at their advice.

The Directors consider that the terms of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the transactions contemplated under the Subscription Agreement and the Whitewash Waiver. You are advised to read the letters from the Independent Board Committee and the letter from Somerley mentioned above before deciding how to vote at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

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

The following is the text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver prepared for the purpose of incorporation in this circular.

MONGOLIA ENERGY CORPORATION LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 276)

30 July 2010

To the Independent Shareholders

Dear Sir or Madam,

(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF THE GI CONVERTIBLE NOTE; AND (2) WHITEWASH WAIVER IN RELATION TO THE GI CONVERTIBLE NOTE

We refer to the circular of the Company dated 30 July 2010 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you on the terms of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver. Somerley has been appointed as the independent financial adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 19 to 31 of the Circular. Your attention is also drawn to the "Letter from the Board" in the Circular and the additional information set out in the appendices thereto.

Having considered the terms of the Subscription Agreement and the transaction contemplated thereunder and the Whitewash Waiver and taking into account the independent advice of Somerley, in particular the principal factors, reasons and recommendation as set out in their letter, we consider that the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms, the terms of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the transactions contemplated under the Subscription Agreement and the Whitewash Waiver.

Yours faithfully,
Independent Board Committee
Peter Pun **Tsui Hing Chuen, William** **Lau Wai Piu**
Independent non-executive Directors

The following is the text of a letter received from Somerley setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription and the Whitewash Waiver for inclusion in this circular.

SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

30 July 2010

To the Independent Board Committee and the Independent Shareholders of
Mongolia Energy Corporation Limited

Dear Sirs or Madams,

(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF GI CONVERTIBLE NOTE; AND (2) WHITEWASH WAIVER IN RELATION TO THE GI CONVERTIBLE NOTE

INTORDUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver, details of which are set out in the circular of the Company dated 30 July 2010 (the "**Circular**") to the Shareholders and, for information only, holders of the convertible notes of the Company of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As the Subscriber is a substantial shareholder of the Company and is wholly and beneficially owned by Mr. Lo who is an executive Director, the Subscriber is a connected person of the Company and the Subscription constitutes a connected transaction for the Company and is subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Mr. Lo has a material interest in the Subscription and has abstained from voting on the Board resolution approving the Subscription Agreement. The GI Convertible Note is proposed to be issued pursuant to a specific mandate to be granted by the Independent Shareholders at the SGM.

The Subscriber, Mr. Lo and his spouse, CTF Nominee, Dragon Noble Group Limited, Dato' Dr. Cheng Yu Tung, Dr. Cheng Kar Shun and his spouse are parties acting in concert with each other in respect of the Company. As at the Latest Practicable Date, the Concert Group held an aggregate of 1,820,409,301 Shares, representing approximately 29.83% of the total voting rights of the Company.

Completion of the Subscription Agreement is conditional upon, among other things, the Whitewash Waiver being approved by the Independent Shareholders and granted by the Executive. Upon full conversion of the HK$300,000,000 principal amount of the GI Convertible Note at the initial GI Conversion Price and assuming no other change to the share capital and shareholding structure of the Company, the Concert Group will hold approximately 30.68% of the voting rights of the Company. Under Rule 26 of the Takeovers Code, the acquisition of voting rights under such circumstances will trigger a mandatory general offer by the Concert Group for all the securities of the Company other than those already owned (or agreed to be acquired) by the Concert Group, unless an appropriate waiver is available. An application has been made by the Subscriber to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be made subject to the approval of the Independent Shareholders on a vote taken by way of a poll. Members of the Concert Group and their respective associates and those who are involved or interested in the Subscription or the Whitewash Waiver will abstain from voting on the resolution to approve the Whitewash Waiver at the SGM.

If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Subscription Agreement will not become unconditional and the Subscription will not proceed.

Pursuant to the Listing Rules and the Takeovers Code, the Independent Board Committee, comprising Mr. Peter Pun, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu, has been established to advise the Independent Shareholders in respect of the Subscription and the Whitewash Waiver. As set out in the letter from the Board in the Circular, the non-executive Director, Mr. To Hin Tsun, Gerald ("**Mr. To**"), is not included in the Independent Board Committee as (i) Mr. To had, through T.S. Tong & Co. solicitors of which he was previously a partner and is currently a consultant, rendered professional legal services to certain members of the Concert Group over the years including the past 12 months; and (ii) Mr. To is currently an executive director of International Entertainment Corporation (stock code: 8118) and a non-executive director of NWS Holdings Limited (stock code: 659) (the controlling shareholder of both of which being Cheng Yu Tung Family (Holdings) Limited). We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in these regards, and our appointment has been approved by the Independent Board Committee.

BASIS OF OUR ADVICE

We are not connected with the Company, the Subscriber, their respective substantial shareholders and/or associates; or any party acting, or presumed to be acting, in concert with any of them and, accordingly are considered suitable to give independent financial advice on the above matters. Apart from the normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Subscriber, their respective substantial shareholders and/or associates.

In formulating our opinion and recommendation, we have reviewed, amongst others, the annual reports of the Company for the two years ended 31 March 2009 and 2010 (the "**Annual Reports**") and the information contained in the Circular.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group, which we have assumed to be true, accurate, complete and not misleading in all material aspects as at the date of this letter and will remain as at the date of the SGM. We have sought and received confirmation from the Directors and management of the Group that no material facts have been omitted from the information supplied and opinions expressed by them to us. We consider that the information which we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have considered the following principal factors and reasons:

1. Business of and financial information on the Group

(i) Business of the Group

The Company is an energy and resources developer. The Group is currently focusing on the development of its initial coking coal mining project in Khushuut, Khovd Province, western Mongolia.

(ii) Financial information on the Group

Financial results

The following are summaries of the results of the Group for the years ended 31 March 2008, 2009 and 2010 as extracted from the Annual Reports:

	Year ended 31 March		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	—	—	29,952
(Loss)/profit before taxation	(248,521)	(486,545)	109,208
(Loss)/profit for the year from continuing operation	(248,521)	(420,039)	74,400
Loss for the year from discontinued operation	(68,884)	(18,348)	—
(Loss)/profit for the year	(317,405)	(438,387)	74,400

The Group has been focusing its effort on the development of its energy and resources development businesses and has divested its residual private jet chartered business. For the year ended 31 March 2010, no revenue was recorded. It is mainly due to (i) the disposal of a subsidiary which owned G200 aircraft in March 2010; (ii) revenue attributable from private jet chartered business was re-classified as the discontinued operation for the year ended 31 March 2010; and (iii) the fact that there was no revenue contribution from the energy and resources development business during its development stage in the financial year ended 31 March 2010.

The loss for the year ended 31 March 2010 attributable to the Shareholders was approximately HK$317.4 million, which represents a decrease of approximately 27.6% from approximately HK$438.4 million of the prior year. The reduction in loss are chiefly attributable to, among others: (i) an approximately 46.7% decrease in finance costs from approximately HK$171.9 million in 2009 to approximately HK$91.6 million in 2010 as borrowing costs of approximately HK$113.8 million (2009: HK$49.0 million) directly attributable to the construction of the development in progress during the year was capitalised; (ii) the recognition of unrealised fair value gains from its held-for-trading investments and realised one of its listed investments with a total fair value gain of approximately HK$72.8 million by the Group in 2010 as opposed to the fair value loss of approximately HK$24.0 million in 2009; (iii) an approximately 95.7% decrease in impairment loss on interests in and loans to associates from approximately HK$56.8 million in 2009 to approximately HK$2.5 million in 2010; and (iv) the approximately HK$100.4 million loss on early redemption of loan note in 2009 which did not exist in 2010.

As the Group is moving forward as an energy and resources developer, the Group's operating costs, including but not limited to, staff costs, depreciation and other expenses in this business segment increased during the year ended 31 March 2010.

The loss for the year ended 31 March 2009 attributable to the Shareholders was approximately HK$438.4 million mainly due to the accounting loss relating to the energy and related resources projects of the Group. Of this approximately HK$438.4 million loss, approximately HK$295.5 million was attributable to the accounting loss from (i) early redemption of the loan note amounting to approximately HK$100.4 million; (ii) the notional interest expenses on the convertible notes and loan note amounting to approximately HK$171.1 million; and (iii) fair value loss from listed Hong Kong investments of approximately HK$24.0 million as a result of the decrease in market prices of Hong Kong equities during the year ended 31 March 2009. Apart from the above, the Group also incurred operating loss of HK$45.2 million in the energy and resources business segment for the year ended 31 March 2009 and recognised an approximately HK$56.8 million impairment loss on interests in and loans to associates.

Assets and liabilities

The following summarises the Group's assets and liabilities as at 31 March 2008, 31 March 2009 and 31 March 2010 as extracted from the Annual Reports:

	As at 31 March		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	14,835,704	14,320,377	13,891,555
Current assets	334,254	726,892	326,652
Current liabilities	(311,179)	(30,342)	(251,571)
Net current assets	23,075	696,550	75,081
Non-current liabilities	(1,709,801)	(1,757,634)	(871,514)
Net assets	**13,148,978**	**13,259,293**	**13,095,122**
Financed by:			
Equity attributable to Shareholders	13,148,921	13,259,236	13,095,065
Minority interests	57	57	57
Total equity	**13,148,978**	**13,259,293**	**13,095,122**

As at 31 March 2008, 31 March 2009 and 31 March 2010, the major assets of the Group were the exploration and evaluation assets in connection with the Group's various acquisitions of concessions for resources since 2007. These exploration and evaluation assets relate to an aggregate concession areas of approximately 330,000 hectares for coal, ferrous and non-ferrous metal resources in western Mongolia at Khushuut, Darvi, Gants Mod, Olon Bulag, Gobi-Altai and Bayan Ulgii. As at 31 March 2010, the exploration and evaluation assets were approximately HK$13,189.7 million. In addition, approximately HK$1,090.5 million was capitalised as development in progress up to 31 March 2010 which relates to the development costs of the road foundation to link Khushuut with the Yarant/Takeshenken border crossing at Xinjiang, PRC (the "**Khushuut Road**"). As stated in the Annual Reports, the Khushuut Road was substantially completed in September 2009.

Current assets of the Group mainly comprises of cash and other receivables, prepayments and deposits. Decrease in current assets of the Group during the year ended 31 March 2010 as compared to 31 March 2009 was mainly attributable to the usage of funding in the mine development and related activities such as construction of the Khushuut Road and the payment of cash consideration for the acquisition of an exploration concession with ferrous resources in Mongolia.

Non-current liabilities of the Group as at 31 March 2010 mainly comprise convertible notes amounted to approximately HK$1,709.8 million (2009: HK$1,647.2 million) with a one to two year maturity profile. Current liabilities of the Group as at 31 March 2010 mainly comprises the loan note and convertible note amounting to approximately HK$253.2 million, which are repayable within 12 months. The total borrowing of the Group increased from approximately HK$1,757.6 million (consisted of convertible notes of approximately HK$1,647.2 million and loan note of approximately HK$110.4 million) as at 31 March 2009 to approximately HK$1,963.0 million (consisted of convertible note of approximately HK$1,850.0 million (of which approximately HK$140.2 million was classified as current liabilities and approximately HK$1,709.8 million was classified as non-current liabilities) and loan note of approximately HK$113.0 million) as at 31 March 2010 due to the accrual of interest expenses which are calculated at effective interest rates in the range of 10.43% to 14.14%.

2. Reasons for and use of proceeds of the Subscription

The Group's initial project in western Mongolia is located at Khushuut, Khovd Province. This is in relation to 600 hectares of the Group's 330,000 hectares concession areas at western Mongolia. The exploration has demonstrated approximately 149.2 million tonnes of JORC in-place coal resources, which are predominantly premium coking coal. The Group's target is initially to build up to a three million tonnes raw coal per annum (two million tonnes saleable) with gradual increase in the production rate over time.

To facilitate transportation of coal, the Group has completed substantially the construction of the Khushuut Road. As stated in the letter from the Board in the Circular, to consolidate the road foundation already built for better running of vehicles and maintenance, the Group had on 9 April 2010 entered into a road surface contract (the "**Road Surface Contract**") consisting principally of asphalt pavement of the roadway and construction of some surface stations along the roadway of approximately 340 kilometers with an independent contractor for approximately RMB488.2 million. The road surface pavement is expected to be completed this year to facilitate the transportation of coking coal. The Group has commenced its initial mining operation at Khushuut.

As set out in the letter from the Board in the Circular, additional capital is anticipated for necessary infrastructures including paving the road surface and for the operation as mentioned above prior to actual commencement of the commercial mining production. It is therefore necessary for the Company to have additional working capital and funding for various expenses relating to its mining operation. The net proceeds of the GI Convertible Note which are estimated to be approximately HK$296 million will be used for general working capital of the Group including the financing of the road surface pavement and mining operation expenses of the Group.

As at 31 March 2010, cash and cash equivalents of the Group amounted to approximately HK$121.3 million. As stated in the Group's indebtedness statement as of 30 April 2010 in section 5 of Appendix I to the Circular, majority of the Group's liabilities comprise the HK$2,000 million zero-coupon convertible note to Chow Tai Fook Nominee Limited (the "**CTF Convertible Note**") which will fall due on 30 April 2011. The conversion price of the CTF Convertible Note is HK$7.3 per Share, which represents a premium of approximately 153.5% over the closing price of the Shares on the Latest Practicable Date. As revealed from the Annual Reports, the net cash outflow from the Group's operating activities amounted to approximately HK$157.2 million and approximately HK$162.1 million for the year ended 31 March 2009 and 31 March 2010 respectively. Coupled with the relatively low level of cash holdings of HK$121.3 million as at 31 March 2010, a significant cash drainage is currently experienced by the Group. As the Group's commercial production has not yet been commenced and in the light of the further funding requirement for the Road Surface Contract, it is envisaged that the current cash resources of the Group may not be adequate to cover the Group's upcoming cash outlay for its mining project development. In this regard, we have reviewed the working capital requirement of the Group and concur with the Company's view that it is necessary to have secure additional working capital and funding for various capital and operating expenses relating to its mining operation.

3. Financing alternatives available to the Group

As advised by the Directors, the Company has considered other alternative means of financing, including debt financing and other forms of equity financing. The Directors consider that bank borrowings will inevitably create a higher financing cost to the Group as the lending interest rate of bank financing (if and to the extent available) will not be attractive as compared to the coupon rate of the GI Convertible Note in the light of the Group's loss making history for the past years. In fact, based on the quotation provided to the Group by a commercial bank, the Group's bank borrowing rate will be significantly higher than the coupon rate of the GI Convertible Note.

Fund raising by way of new share placement will create immediate dilution on the existing Shareholders and it is also common that the investors will request for a discount of the new share placement price to the prevailing market price of the Shares whereas the initial conversion price of the GI Convertible Note is set at a premium of approximately 8.99% over the closing price of the Shares on the Last Trading Day and also represents a premium of approximately 38.89% over the closing price of the Shares on the Latest Practicable Date. Fund raising through rights issue or open offer may attract a higher transaction cost (such as underwriting and other fees) and dilution effect on those non-participating Shareholders will usually be greater as compared to new share placement and issue of convertibles. After due and careful consideration of various alternatives as discussed above, the Directors consider and we concur with the Directors' view that the issue of the GI Convertible Note is an appropriate means for the Company to secure financing.

4. Key terms of the GI Convertible Note

Pursuant to the Subscription Agreement, the Subscriber has agreed to subscribe for the GI Convertible Note in an aggregate principal amount of HK$300,000,000. Principal terms of the GI Convertible Note are set out in the letter from the Board in the Circular.

(i) GI Conversion Price

The initial GI Conversion Price, being HK$4.0 per Share, represents:

(i) a premium of approximately 38.89% over the closing price of HK$2.88 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

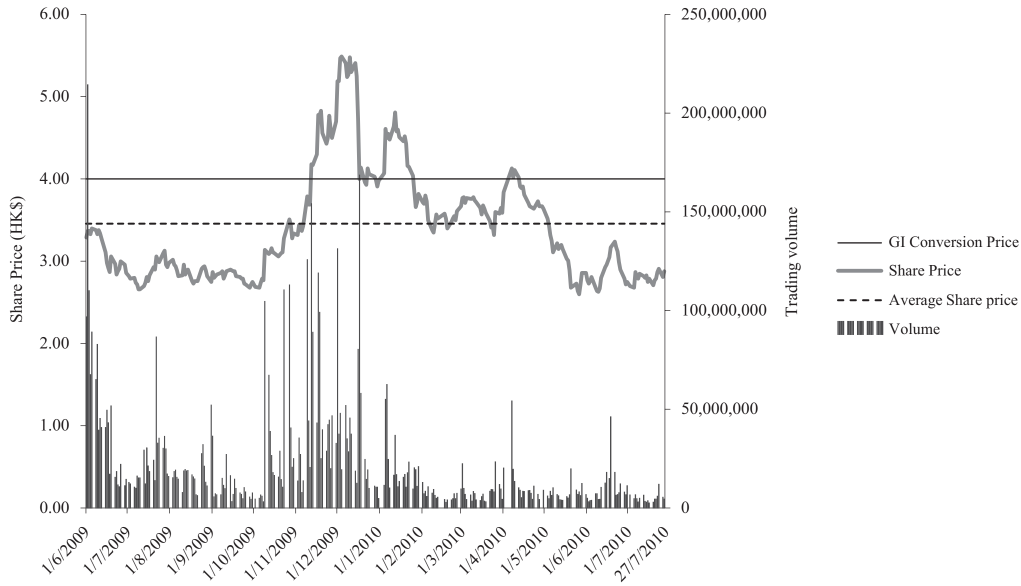
(ii) a premium of approximately 8.99% over the closing price of HK$3.670 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a premium of approximately 8.99% over the average of the closing prices of HK$3.670 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day; and

(iv) a premium of approximately 7.12% over the average of the closing prices of HK$3.734 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day.

We concur with the Directors' view that the premium of the GI Conversion Price over the prevailing price of the Shares demonstrate the confidence by Mr. Lo in the business of the Group prior to the actual commercial production. In order to assess the fairness and reasonableness of setting the initial GI Conversion Price at HK$4.0 per Share, we have analysed the historical share price performance of the Company over a longer period.

Set out below is the Share closing price and volume chart of the Company since 1 June 2009 up to and including the Latest Practicable Date (the "**Review Period**"):



Source: website of the Stock Exchange

During the Review Period, the closing price of the Shares ranged from the lowest of HK$2.60 per Share (recorded on 26 May 2010) to the highest of HK$5.49 per Share (recorded on 4 December 2009). The average closing price of the Shares for the Review Period is approximately HK$3.40. The GI Conversion Price is approximately 17.6% higher than the average closing price of the Shares for the Review Period.

The initial GI Conversion Price also represents a significant premium of approximately 85.61% over the audited consolidated net assets value of the Company attributable to the Shareholders of approximately HK$2.155 per Share (based on the audited consolidated net assets of the Company attributable to the Shareholders of approximately HK$13,148.9 million as at 31 March 2010 and 6,102,897,828 Shares in issue as at 31 March 2010).

Based on the above factors, we consider the initial GI Conversion Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(ii) ***Maturity***

The maturity of the GI Convertible Note is three years and the Company is only obliged to redeem the outstanding principal amount of the GI Convertible Note on the maturity date. As discussed with the Company, the initial mining operation in the Khushuut area has been commenced and commercial production will follow later this year. The three-year term of the GI Convertible Note shall provide the Group with adequate time to build up its mining operation before the repayment of the GI Convertible Note falls due. Shareholders should also note that the Company has the right to redeem all or part of the outstanding principal amount of the GI Convertible Note at par during the term of the GI Convertible Note.

Based on the above, we consider the three-year term of the GI Convertible Note is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(iii) ***Coupon rate***

The GI Convertible Note carries a coupon rate of 3.5% per annum and is redeemable at par on maturity.

Based on the principal amount of the GI Convertible Note of HK$300 million, the coupon rate of 3.5% represents a cash payment of HK$10.5 million by the Company per annum. Having taking into account the fact that (i) the funding requirement of the Group as discussed in section 2 above; (ii) the issuance of the convertible note is the preferred method of financing in the light of the Group's current financial position and the lending interest rate of bank financing (if and to the extent available) will not be attractive as compared to the coupon rate of the GI Convertible Note as discussed in section 3 above; (iii) the unsecured nature of the GI Convertible Note; and (iv) the Company has the right to early redeem all or part of the outstanding principal amount of the GI Convertible Note if the Group is able to secure other financing means with more favourable terms as compared to that of the GI Convertible Note, we consider that the 3.5% coupon rate attached to the GI Convertible Note is fair and reasonable.

(iv) ***Other terms of the GI Convertible Note***

The GI Convertible Note is transferrable in general except for transfer to a connected person of the Company unless with (i) prior written consent of the Company; and (ii) relevant approvals from the Shareholders if so required under the Listing Rules. The Company is also not obliged to issue any GI Conversion Shares, if and to the extent the issue of the relevant GI Conversion Shares would lead to an insufficient public float for the Shares (as required under the Listing Rules). We consider the availability of such terms provides protection to the Company for the purposes of general listing compliance and such terms are also in line with the market practice.

Based on the above, we concur with the Directors' view that the terms of the GI Convertible Note are on normal commercial terms and fair and reasonable, and the entering into of the Subscription Agreement and the transactions contemplated under the Subscription Agreement are in the interests of the Company and the Shareholders as a whole.

5. Financial effects of the Subscription on the Group

(i) Net asset value

As advised by the Company, the GI Convertible Note to be issued by the Company will be accounted for in two separate components in the Company's balance sheet, including a liability component and an equity component on initial recognition. The liability component will be included on the balance sheet of the Company, whereas the total assets will be increased by the net proceeds of the issue of the GI Convertible Note. The net effect of the aforesaid will be the increase in the net assets, which is represented by the corresponding increase in the equity component on the Company's balance sheet. Accordingly, there will be a positive impact on the net assets of the Group upon the issue of the GI Convertible Note.

(ii) Earnings

In subsequent periods, the liability component of the GI Convertible Note will be carried at amortised cost using the effective interest method. Only the effective interest expenses of the GI Convertible Note would be charged to the consolidated income statement subsequent to the completion of issue of the GI Convertible Note and for the three years onward. The effective interest expenses of the GI Convertible Note will continuously be incurred by the Group until conversion and/or redemption of the GI Convertible Note in full. No gain or loss will be recognised in the Group's consolidated income statement upon initial recognition, conversion or expiration of the GI Convertible Note.

Although the carrying interest of the GI Convertible Note will create negative impact on the future earnings of the Group, the issue of the GI Convertible Note is considered necessary in order to allow the Group to facilitate its mining operation in the Khushuut area as scheduled taking into account the funding requirement of the Group as discussed in section 2 above.

(iii) Liquidity and working capital

Based on the Annual Reports, the Group had cash and cash equivalents of approximately HK$121.3 million as at 31 March 2010. Immediately upon completion of the issue of the GI Convertible Note, the Company would raise net proceeds of approximately HK$296 million from the issue of the GI Convertible Note and the liability portion of the GI Convertible Note will be treated as non-current liability of the Group. Accordingly, the liquidity and working capital position of the Group will be improved immediately upon completion of the issue of the GI Convertible Note.

6. Potential dilution effect on the shareholdings of the Independent Shareholders

Full conversion of the GI Convertible Note would result into an issue of 75 million GI Conversion Shares (based on the initial GI Conversion Price), which represents only approximately 1.2% of both the existing issued share capital and the enlarged issued share capital as a result of the full conversion of the GI Convertible Note. Dilution effect on the existing public Shareholders of approximately 0.67% (from approximately 54.90% to approximately 54.23% as detailed in Scenario A under the section headed "Shareholding structure of the Company" in the letter from the Board to the Circular) is considered insignificant.

7. Whitewash Waiver

Upon full conversion of the HK$300,000,000 principal amount of the GI Convertible Note at the initial GI Conversion Price and assuming no other change to the share capital and shareholding structure of the Company, the Concert Group will hold approximately 30.68% of the voting rights of the Company. Under Rule 26 of the Takeovers Code, the acquisition of voting rights under such circumstances will trigger a mandatory general offer by the Concert Group for all the securities of the Company other than those already owned (or agreed to be acquired) by the Concert Group, unless an appropriate waiver is available. In this regard, an application has been made by the Subscriber to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

Independent Shareholders should note that the Subscription is conditional on, among others, the granting of the Whitewash Waiver by the Executive and the approval by the Shareholders in the SGM by way of poll. Such conditions cannot be waived under the Subscription Agreement. If the Whitewash Waiver is not granted by the Executive or if the Whitewash Waiver is not approved in the SGM, the Subscription Agreement will lapse. Based on the factors and reasons as set forth above, we do not consider that there is any benefit to be gained by the Independent Shareholders for not voting in favour of the resolution to approve the Whitewash Waiver. Failure to approve the resolution in relation to the Whitewash Waiver would cause the Subscription Agreement to lapse.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms, the terms of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver are in the interests of the Group and the Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions relating to the Subscription and the Whitewash Waiver at the SGM respectively. We also recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Subscription and the Whitewash Waiver at the SGM.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Kenneth Chow
Managing Director — Corporate Finance

1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated financial information of the Group for each of the two years ended 31 March 2010, as extracted and summarised from the annual report of the Company for the year ended 31 March 2010, and the audited consolidated financial information of the Group for the year ended 31 March 2008, as extracted and summarised from the annual report of the Company for the year ended 31 March 2008:

Results

	For the year ended 31 March		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Continuing operation			
Revenue	—	—	29,952
Other income	—	9,076	—
Interest income	2,274	18,980	3,342
Dividend income from listed equity securities	—	—	15
Direct aviation costs	—	—	(1,311)
Staff costs	(63,235)	(46,903)	(39,818)
Depreciation	(24,177)	(17,466)	(12,909)
Other expenses	(96,936)	(77,947)	(63,963)
Finance costs	(91,556)	(171,877)	(31,271)
Fair value (loss) gain on investment properties	(10,689)	(16,062)	190,000
Fair value gain (loss) from held-for-trading investments	72,814	(24,039)	20,075
Gain on disposal of interest in a jointly controlled entity	—	—	12,402
Gain on disposal of interests in associates	—	—	5,747
Impairment losses on interests in and loans to associates	(2,457)	(56,766)	—
Impairment loss on available-for-sale financial asset	(3,024)	—	—
Share of losses of associates	(31,535)	(3,170)	(2,365)
Share of loss of a jointly controlled entity	—	—	(688)
Loss on early redemption of loan note	—	(100,371)	—
(Loss) profit before taxation	(248,521)	(486,545)	109,208
Income tax credit (expense)	—	66,506	(34,808)
(Loss) profit for the year from continuing operation	(248,521)	(420,039)	74,400
Discontinued operation			
Loss for the year from discontinued operation	(68,884)	(18,348)	—
(Loss) profit for the year	(317,405)	(438,387)	74,400
(Loss) profit for the year attributable to:			
Owners of the Company	(317,405)	(438,387)	74,400
Minority interests	—	—	—
	(317,405)	(438,387)	74,400

	For the year ended 31 March		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
(Loss) earnings per share			
From continuing and discontinued operations			
— basic (HK cents)	(5.22)	(7.25)	2.32
— diluted (HK cents)	(5.22)	(7.25)	2.31
From continuing operation			
— basic (HK cents)	(4.08)	(6.95)	2.32
— diluted (HK cents)	(4.08)	(6.95)	2.31
From discontinued operation			
— basic (HK cents)	(1.14)	(0.30)	N/A
— diluted (HK cents)	(1.14)	(0.30)	N/A

Assets and liabilities

	As at 31 March		
	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	15,169,958	15,047,269	14,218,207
Less: Total liabilities	(2,020,980)	(1,787,976)	(1,123,085)
Net assets	13,148,978	13,259,293	13,095,122
Equity attributable to owners of the Company	13,148,921	13,259,236	13,095,065
Minority interests	57	57	57
Total equity	13,148,978	13,259,293	13,095,122

Notes:

1. The Company's auditor has modified its report on the consolidated financial statements of the Group for the year ended 31 March 2010. The auditor's report in respect of the consolidated financial statements of the Group for the year ended 31 March 2010 is set out on pages 35 to 36 of this circular. The reports of the auditors in respect of the consolidated financial statements of the Group for each of the two years ended 31 March 2009 were unqualified.

2. There was no extraordinary or exceptional item affecting the consolidated financial statements of the Group for the three years ended 31 March 2010.

3. No dividend was declared for the three years ended 31 March 2010.

4. The provision of charter flight services was discontinued during the year ended 31 March 2010. The results attributable to the charter flight services business for the year ended 31 March 2010, together with their comparative figures for the year ended 31 March 2009, have been classified as discontinued operation. The results attributable to the charter flight services business have been classified as continuing operation for the year ended 31 March 2008.

2. REPORT OF THE AUDITOR FOR THE YEAR ENDED 31 MARCH 2010

Set out below is the auditor's report for the year ended 31 March 2010 as extracted from the annual report of the Company for the year ended 31 March 2010. References to page number refer to the page number of the annual report of the Company for the year ended 31 March 2010.

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 110, which comprise the consolidated statement of financial position as at 31 March 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 as to 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 and true and fair presentation of the consolidated financial statements 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 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 July 2010

3. AUDITED FINANCIAL STATEMENTS

Set out below are the audited consolidated financial statements of the Group for the year ended 31 March 2010, together with the notes thereon, as extracted from the annual report of the Company for the year ended 31 March 2010:

Consolidated Income Statement
For the year ended 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Continuing operation			
Revenue – coal mining	*6*	—	—
Other income	*6*	—	9,076
Interest income		2,274	18,980
Staff costs		(63,235)	(46,903)
Depreciation		(24,177)	(17,466)
Other expenses		(96,936)	(77,947)
Finance costs	*7*	(91,556)	(171,877)
Fair value loss on investment properties	*14*	(10,689)	(16,062)
Fair value gain (loss) from held-for-trading investments		72,814	(24,039)
Impairment losses on interests in and loans to associates	*18*	(2,457)	(56,766)
Impairment loss on available-for-sale financial asset	*19*	(3,024)	—
Share of losses of associates	*18*	(31,535)	(3,170)
Loss on early redemption of loan note	*27*	—	(100,371)
Loss before taxation	*8*	(248,521)	(486,545)
Income tax credit	*9*	—	66,506
Loss for the year from continuing operation		(248,521)	(420,039)

Consolidated Income Statement *(Continued)*
For the year ended 31 March 2010

	Notes	**2010** *HK$'000*	**2009** *HK$'000*
Discontinued operation			
Loss for the year from discontinued operation	*10*	(68,884)	(18,348)
Loss for the year		(317,405)	(438,387)
Loss for the year attributable to owners of the Company		(317,405)	(438,387)
Loss per share	*12*		
From continuing and discontinued operations			
— basic *(HK cents)*		(5.22)	(7.25)
— diluted *(HK cents)*		(5.22)	(7.25)
From continuing operation			
— basic *(HK cents)*		(4.08)	(6.95)
— diluted *(HK cents)*		(4.08)	(6.95)
From discontinued operation			
— basic *(HK cents)*		(1.14)	(0.30)
— diluted *(HK cents)*		(1.14)	(0.30)

Consolidated Statement of Comprehensive Income
For the year ended 31 March 2010

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

Consolidated Statement of Financial Position
At 31 March 2010

	Notes	**2010** *HK$'000*	**2009** *HK$'000*
Non-current assets			
Property, plant and equipment	*13*	94,314	224,456
Investment property	*14*	94,278	104,046
Intangible assets	*15*	877	809
Development in progress	*16*	1,090,494	738,941
Exploration and evaluation assets	*17*	13,189,727	12,758,720
Interests in associates	*18*	41,599	67,678
Available-for-sale financial asset	*19*	—	—
Other assets		1,150	1,150
Loan note receivable	*20*	37,667	—
Prepayments for exploration and evaluation expenditure	*21*	22,042	54,050
Deposits for property, plant and equipment andother long-term deposits	*22*	63,556	170,527
Amount due from an associate	*18*	200,000	200,000
		14,835,704	14,320,377
Current assets			
Other receivables, prepayments and deposits		164,094	31,986
Held-for-trading investments	*23*	45,207	28,742
Amounts due from associates	*18*	3,654	5,275
Cash and cash equivalents	*24*	121,299	660,889
		334,254	726,892
Current liabilities			
Accounts payable	*25*	8,110	1,049
Other payables and accruals		49,244	18,482
Convertible note	*26*	140,232	—
Loan note	*27*	112,969	—
Amount due to an associate	*18*	624	5,510
Tax payable		—	5,301
		311,179	30,342
Net current assets		23,075	696,550
Total assets less current liabilities		14,858,779	15,016,927

Consolidated Statement of Financial Position *(Continued)*
At 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Convertible notes	26	1,709,801	1,647,166
Loan note	27	—	110,468
		1,709,801	1,757,634
Net assets		13,148,978	13,259,293
Capital and reserves			
Share capital	29	122,058	120,964
Reserves		13,026,863	13,138,272
Equity attributable to the owners of the Company		13,148,921	13,259,236
Minority interests		57	57
Total equity		13,148,978	13,259,293

Consolidated Statement of Changes in Equity

For the year ended 31 March 2010

	Attributable to owners of the Company									
	Share capital	Share premium	Contributed surplus	Capital reserve	Share options reserve	Translation reserve	Retained profits (accumulated losses)	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 April 2008	120,945	9,132,405	199,594	3,529,218	8,225	(1,035)	105,713	13,095,065	57	13,095,122
Exchange differences arising on translation	—	—	—	—	—	(63,352)	—	(63,352)	—	(63,352)
Loss for the year	—	—	—	—	—	—	(438,387)	(438,387)	—	(438,387)
Total comprehensive expense for the year	—	—	—	—	—	(63,352)	(438,387)	(501,739)	—	(501,739)
Equity settled share-based payments	—	—	—	—	6,572	—	—	6,572	—	6,572
Convertible note equity component	—	—	—	654,948	—	—	—	654,948	—	654,948
Issue of shares										
— Exercise of share options	19	5,987	—	—	(1,616)	—	—	4,390	—	4,390
Balance at 31 March 2009 and 1 April 2009	120,964	9,138,392	199,594	4,184,166	13,181	(64,387)	(332,674)	13,259,236	57	13,259,293
Exchange differences arising on translation	—	—	—	—	—	31,025	—	31,025	—	31,025
Loss for the year	—	—	—	—	—	—	(317,405)	(317,405)	—	(317,405)
Total comprehensive income (expense) for the year	—	—	—	—	—	31,025	(317,405)	(286,380)	—	(286,380)
Equity settled share-based payments	—	—	—	—	6,660	—	—	6,660	—	6,660
Issue of shares										
— Acquisition of an exploration right	1,092	168,100	—	—	—	—	—	169,192	—	169,192
— Exercise of share options	2	311	—	—	(100)	—	—	213	—	213
Balance at 31 March 2010	122,058	9,306,803	199,594	4,184,166	19,741	(33,362)	(650,079)	13,148,921	57	13,148,978

Consolidated Statement of Cash Flows
For the year ended 31 March 2010

	Notes	**2010** *HK$'000*	**2009** *HK$'000*
Operating activities			
Loss before taxation from continuing and discontinued operations		(317,405)	(504,893)
Interest income		(2,274)	(19,072)
Finance costs		91,556	171,877
Write off of property, plant and equipment		—	836
Write off of intangible assets		23	2
Write off of prepayments for exploration and evaluation expenditure		3,174	—
Loss on disposal of property, plant and equipment		39	—
Loss on disposal of a subsidiary	*31*	4,800	—
Share of losses of associates		31,535	3,170
Amortisation of intangible asset		423	224
Depreciation		32,034	24,644
Exploration related expense previously recognised as long term deposit and prepayment		1,720	—
Fair value loss on investment properties		10,689	16,062
Fair value (gain) loss from held-for-trading investments		(72,814)	24,039
Impairment loss on aircraft		24,333	—
Impairment losses on interests in and loans to associates		2,457	56,766
Impairment loss on deposit paid for acquisition of aircraft		23,649	—
Impairment loss on available-for-sale financial asset		3,024	—
Loss on early redemption of loan note		—	100,371
Share-based compensation expenses		6,660	6,572
Operating cash flows before movements in working capital		(156,377)	(119,402)
Increase in other receivables, prepayments and deposits		(53,598)	(18,920)
Decrease in held-for-trading investments		56,349	1,602
Decrease in accounts payable, other payables and accruals		(1,193)	(16,218)
Advance from associates		(2,007)	(3,388)
Net cash used in operations		(156,826)	(156,326)
Tax paid – Hong Kong profits tax		(5,301)	(907)
Net cash used in operating activities		(162,127)	(157,233)

Consolidated Statement of Cash Flows *(Continued)*
For the year ended 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Investing activities			
Purchase of property, plant and equipment		(16,023)	(41,022)
Purchase of investment property		—	(104,046)
Proceeds from disposal of investment properties		—	515,735
Proceeds from sale of property, plant and equipment		448	—
Development in progress additions		(237,741)	(641,361)
Net cash outflow from acquisition of an exploration right through acquisition of subsidiaries		(77,485)	—
Exploration and evaluation asset additions		(92,637)	(94,184)
Intangible asset additions		(514)	(701)
Deposits for property, plant and equipment		(1,320)	(90,962)
Acquisition of associates		—	(56,771)
Capital contribution to associates		(6,293)	(28,444)
Available-for-sale financial asset additions	19	(3,024)	—
Disposal of a subsidiary	31	48,694	—
Advance to associates		—	(6,258)
Bank interest received		1,997	19,072
Net cash used in investing activities		(383,898)	(528,942)
Financing activities			
Repayment of borrowings		—	(197,900)
Proceeds received from exercise of share options		213	4,390
Proceeds received from issue of zero coupon convertible note		—	2,000,000
Early redemption of loan note		—	(687,500)
Interest paid on bank and other borrowings		—	(772)
Interest paid on loan note		—	(19,537)
Net cash generated from financing activities		213	1,098,681
Net (decrease) increase in cash and cash equivalents		(545,812)	412,506
Cash and cash equivalents at beginning of the year		660,889	254,341
Effect of foreign exchange rate changes		6,222	(5,958)
Cash and cash equivalents at end of the year		121,299	660,889

Notes to the Consolidated Financial Statements

For the year ended 31 March 2010

1. GENERAL

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

The Company acts as an investment holding company and its subsidiaries (together with the Company collectively referred to as the "Group") are principally engaged in energy and related resources and provision of charter flight services. During the year ended 31 March 2010, the Group discontinued the provision of charter flight services as set out in note 10.

The consolidated financial statements are presented in Hong Kong dollars. The functional currency of the Company was Hong Kong dollars until 1 March 2010, in such date the Company discontinued the provision of charter flight services and the functional currency of the Company become United States Dollars ("US$") as US$ better reflects the underlying transactions, event and condition that are relevant to the Group. For the convenience of the financial statements users, the consolidated financial statements are presented in Hong Kong dollars, as the Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited,

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

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

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

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

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

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

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

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's operating segments (see Note 6) but no changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

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

Improving Disclosures about Financial Instruments

(Amendments to HKFRS 7 Financial Instruments: Disclosures)

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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.

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

Basis of consolidation

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

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Interests in associates

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

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

The Group discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and accounts for the investment in accordance with HKAS 39 from that date, provided the associate does not become a subsidiary or a joint venture. The carrying amount of the investment at the date that it ceases to be an associate is regarded as its deemed cost on initial measurement as a financial asset in accordance with HKAS 39.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

(a) Rental and management fee income

Rental income is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

Management fee income is recognised when services are provided.

(b) Charter flight income

Charter flight income is recognised when transportation services are rendered.

(c) Interest income

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

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

Intangible assets acquired separately

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

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

Prepayments for exploration and evaluation expenditure

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

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

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 either intangible assets or other fixed assets. These assets are assessed for impairment 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.

Investment properties

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

On initial recognition, investment properties are 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 consolidated income statement for the period in which they arise.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Investment properties *(Continued)*

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 its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item 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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases, except for those classified as investment properties accounted for under the fair value model.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transaction. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items 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 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 consolidated income statement on disposal of the foreign operation.

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

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

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 consolidated income statement in the period in which they are incurred.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

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

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 rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in consolidated income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Financial instruments

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

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into one of the three categories, including held-for-trading investments, available-for-sale financial assets and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of 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.

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

Held-for-trading investments

A financial asset is classified as held for trading if:

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

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

Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to consolidated income statement.

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).

3. **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 other receivables, loan note receivable, amounts due from associates and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

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

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- 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, an impairment loss is recognised in consolidated income statement when there is objective evidence that the asset is impaired and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of 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 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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

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

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

Convertible notes

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

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. For the convertible note issued in connection with the acquisition of the mining and exploration rights set out in note 17, the conversion option component is recognised at fair value and included in equity (capital reserve). For other convertible notes, the difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (capital reserve).

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

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

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Other financial liabilities

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Embedded derivatives

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

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

Financial guarantee contracts

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Equity-settled share-based payment transactions

Share options granted to employees after 7 November 2002 and vested on or after 1 April 2005

The fair value of services received is determined by reference to the fair value of share options granted at the grant date. For share options which are vested at the date of grant, the fair value of the shares options granted is expensed immediately to consolidated income statement.

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

Share options granted to employees after 7 November 2002 and vested before 1 April 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Equity instruments granted for acquisitions of assets

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

4. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which include loan note disclosed in note 27, convertible notes disclosed in note 26 and equity attributable to owners of the Company, comprising share capital and reserves.

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

5. FINANCIAL INSTRUMENTS

5a. Categories of financial instruments

	2010	2009
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including bank balances and cash)	302,740	684,401
Available-for-sale financial asset	—	—
Held-for-trading investments	45,207	28,742
Financial liabilities		
Measured at amortised cost	2,019,672	1,781,836

5b. Financial risk management objectives and policies

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

Market risk

(i) Currency risk

The Group mainly operates in Hong Kong, Mainland China and Mongolia and the exposure in exchange rate risk mainly arises from loan note receivable, other receivables, held-for-trading investments, amount due from an associate, bank balances, accounts payable and other payables denominated in foreign currencies.

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

	Liabilities		Assets	
	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong Dollars ("HK$")	4,296	—	96,722	—
United States Dollars ("US$")	—	728	—	6,018
Renminbi ("RMB")	6,156	1	77	1,523
Mongolian Tugrik ("MNT")	2,543	847	1,546	316

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.

5. **FINANCIAL INSTRUMENTS** *(Continued)*

5b. **Financial risk management objectives and policies** *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

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

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

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan note receivable (see Note 20) and fixed-rate borrowings, such as convertible notes and a loan note (see Notes 26 and 27 for details of these borrowings). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 24 for details).

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action 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.

Sensitivity analysis

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

(iii) Other price risk

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 2010 would decrease/increase by HK$2,260,000 (2009: Loss would decrease/increase by HK$1,437,000) as a result of the changes in fair value of held-for-trading investments.

5. **FINANCIAL INSTRUMENTS** *(Continued)*

5b. **Financial risk management objectives and policies** *(Continued)*

Credit risk

As at 31 March 2010, 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 and financial guarantees provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The Group is exposed to concentration of credit risk on amounts due from associates. At 31 March 2010, the amounts due from associates represent advances granted to two associates. The failure of these associates to make the required payment could have a substantial negative impact on the Group's results and liquidity. In order to minimise the credit risk, management of the Group has established procedures to monitor the business operation and financial position of the associates. In addition, the Group reviews the balance with these associates at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

5. FINANCIAL INSTRUMENTS *(Continued)*

5b. Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

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

2010

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount at 31 March 2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accounts payable	8,110	—	—	—	8,110	8,110
Other payables	6,057	2,878	39,000	—	47,935	47,935
Amount due to an associate	624	—	—	—	624	624
Convertible note *(Note 26)*	—	—	155,325	—	155,325	140,232
Zero coupon convertible note *(Note 26)*	—	—	—	2,000,000	2,000,000	1,709,801
Loan note *(Note 27)*	—	—	115,000	—	115,000	112,969
	14,791	2,878	309,325	2,000,000	2,326,994	2,019,671

2009

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount at 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accounts payable	966	83	—	—	1,049	1,049
Other payables	7,086	10,557	—	—	17,643	17,643
Amount due to an associate	5,510	—	—	—	5,510	5,510
Convertible note *(Note 26)*	—	—	—	155,325	155,325	127,556
Zero coupon convertible note *(Note 26)*	—	—	—	2,000,000	2,000,000	1,519,610
Loan note *(Note 27)*	—	—	—	115,000	115,000	110,468
	13,562	10,640	—	2,270,325	2,294,527	1,781,836

5. FINANCIAL INSTRUMENTS *(Continued)*

5c. Fair value

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

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

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Held-for-trading				
– listed equity securities	45,207	—	—	45,207
Available-for-sale				
financial asset	—	—	—	—

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

6. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

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

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

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

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

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

6. **REVENUE, OTHER INCOME AND SEGMENT INFORMATION** *(Continued)*

Segment revenue and results

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

For the year ended 31 March 2010

Continuing operation

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

For the year ended 31 March 2009

Continuing operation

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

Note:

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

6. **REVENUE, OTHER INCOME AND SEGMENT INFORMATION** *(Continued)*

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

Segment assets and liabilities

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

For the year ended 31 March 2010

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

6. **REVENUE, OTHER INCOME AND SEGMENT INFORMATION** *(Continued)*

Segment assets and liabilities *(Continued)*

For the year ended 31 March 2009

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

Note: Other unallocated assets mainly represent exploration right for iron ore (for the year ended 31 March 2010 only), property, plant and equipment, deposit for property, plant and equipment and other long term deposits not for coal mining and other receivables, prepayments and deposits.

6. REVENUE, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 March

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

Continuing operation – coal mining

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

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

Geographical information

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

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

	Non-current assets	
	2010	**2009**
	HK$'000	*HK$'000*
Hong Kong	13,628	20,157
Mongolia	14,431,643	13,683,881
Mainland China	152,766	188,628
	14,598,037	13,892,666

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

7. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Continuing operation		
Interest on borrowings wholly repayable within five years:		
Interest expense:		
— convertible notes *(Note 26)*	202,867	187,234
— loan note *(Note 27)*	2,501	32,913
— bank loans	—	772
Less: Interest expense capitalised *(Note)*	(113,812)	(49,042)
	91,556	171,877

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

8. LOSS BEFORE TAXATION

	2010	2009
	HK$'000	*HK$'000*
Continuing operation		
Loss before taxation has been arrived at after charging:		
Directors' remuneration *(Note 11)*	3,215	3,135
Other staff costs:		
Salaries and other benefits	58,878	43,246
Retirement benefits scheme contributions (excluding directors' contributions)	1,142	522
Total staff costs	63,235	46,903
Auditor's remuneration	2,004	2,268
Amortisation on software (included in other expenses)	423	224
Depreciation of property, plant and equipment	24,177	17,466
Direct operating expenses arising from investment properties that generate rental income	—	2,204
Direct operating expenses arising from investment property that do not generate rental income	11	—
Net exchange losses (included in other expenses)	443	344
Operating lease rental in respect of office premises	14,813	12,411
Write off of property, plant and equipment	—	836
Write off of prepayments for exploration and evaluation expenditure	3,174	—

9. INCOME TAX CREDIT

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

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

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

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

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

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:

	2010	2009
	HK$'000	*HK$'000*
Loss before taxation from continuing operation	(248,521)	(486,545)
Calculated at a tax rate of 16.5%	(41,006)	(80,280)
Tax effect on income not subject to tax	(12,397)	(3,663)
Tax effect on expenses not deductible for tax purposes	48,833	87,671
Tax effect on tax loss not recognised	2,652	662
Reversal of previously recognised temporary differences	—	(72,413)
Overprovision in prior year	—	(107)
Effect of different taxation rate in other country	1,918	1,624
Income tax credit	—	(66,506)

10. DISCONTINUED OPERATION

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

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

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

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

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

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

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

10. DISCONTINUED OPERATION *(Continued)*

Cash flows from discontinued operation

	2010	**2009**
	HK$'000	*HK$'000*
Net cash outflows from operating activities	(54,391)	(98,587)
Net cash inflows (outflows) from investment activities	48,311	(3,184)
Net cash inflows from financing activities	6,079	95,554
Net cash outflows	(1)	(6,217)

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

Name of Director	**Fees**	**Salaries**	**Other benefits**	**Share based payments**	**Employer's contribution to MPF Scheme**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Lo Lin Shing, Simon	—	—	1,129	—	—	1,129
Liu Zhuo Wei	—	—	—	—	—	—
Yvette Ong	—	1,707	57	—	12	1,776
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	1,707	1,186	—	12	3,215

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

(a) Directors' emoluments *(Continued)*

The remuneration of each of the directors for the year ended 31 March 2009 is as follows:

Name of Director	Fees	Salaries	Other benefits	Share based payments	Employer's contribution to MPF Scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Lo Lin Shing, Simon	—	—	1,054	—	—	1,054
Liu Zhuo Wei	—	—	—	—	—	—
Yvette Ong	—	1,707	52	—	12	1,771
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	1,707	1,106	—	12	3,135

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

(b) Senior executives' emoluments

The five individuals whose emoluments were the highest in the Group for the year include no (2009: one, whose emoluments are reflected in the analysis presented above) director. The emoluments of the five (2009: remaining four) highest paid individuals during the year are as follows:

	2010	2009
	HK$'000	*HK$'000*
Basic salaries, other allowances and benefits in kind	16,083	15,642
Contributions to MPF Scheme	41	24
Share based payments	6,169	6,032
	22,293	21,698

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

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

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	**2010**	**2009**
HK$1,500,001 – HK$2,000,000	1	1
HK$2,000,001 – HK$2,500,000	—	1
HK$4,000,001 – HK$4,500,000	2	—
HK$6,000,001 – HK$6,500,000	2	—
HK$8,500,001 – HK$9,000,000	—	1
HK$9,000,001 – HK$9,500,000	—	1
	5	4

(c) During the year, no emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

12. LOSS PER SHARE

The calculation of basis and diluted loss per share in based on the following date:

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings at the mining site HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Plant, machinery and other equipment HK$'000	Motor vehicles HK$'000	Aircraft and engines HK$'000	Total HK$'000
COST								
At 1 April 2008	56,665	12,087	4,573	3,802	4,740	11,645	143,568	237,080
Exchange adjustments	(5,152)	259	(55)	(17)	(1,312)	(385)	—	(6,662)
Additions	2,687	10,106	771	1,767	7,642	14,773	3,276	41,022
Written off	—	(1,531)	(15)	(251)	(3)	—	—	(1,800)
At 31 March 2009	54,200	20,921	5,274	5,301	11,067	26,033	146,844	269,640
Exchange adjustments	—	26	10	11	—	149	—	196
Additions	—	5,915	745	950	876	9,884	383	18,753
Written off	—	—	(21)	—	—	—	—	(21)
Disposals	—	—	—	—	—	(879)	—	(879)
Disposal of subsidiary	—	—	—	—	—	—	(122,894)	(122,894)
At 31 March 2010	54,200	26,862	6,008	6,262	11,943	35,187	24,333	164,795
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 April 2008	1,417	1,639	2,117	362	143	1,863	15,669	23,210
Exchange adjustments	(1,269)	64	(49)	(29)	(187)	(236)	—	(1,706)
Charge for the year	4,968	5,559	1,089	1,267	805	3,778	7,178	24,644
Written off	—	(869)	(9)	(86)	—	—	—	(964)
At 31 March 2009	5,116	6,393	3,148	1,514	761	5,405	22,847	45,184
Exchange adjustments	—	17	4	4	—	22	—	47
Charge for the year	5,420	8,861	1,300	1,564	1,114	5,918	7,857	32,034
Written off	—	—	(21)	—	—	—	—	(21)
Impairment	—	—	—	—	—	—	24,333	24,333
Disposals	—	—	—	—	—	(392)	—	(392)
Disposal of subsidiary	—	—	—	—	—	—	(30,704)	(30,704)
At 31 March 2010	10,536	15,271	4,431	3,082	1,875	10,953	24,333	70,481
CARRYING VALUE								
At 31 March 2010	43,664	11,591	1,577	3,180	10,068	24,234	—	94,314
At 31 March 2009	49,084	14,528	2,126	3,787	10,306	20,628	123,997	224,456

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

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

Buildings at the mining site	10 years
Leasehold improvements	over unexpired lease terms
Computer equipment	3 years
Furniture, fixtures and office equipment	5 – 10 years
Plant, machinery and other equipment	10 – 20 years
Motor vehicles	5 years
Aircraft and engines	12 – 20 years

14. INVESTMENT PROPERTY

	2010	**2009**
	HK$'000	*HK$'000*
At beginning of the year	104,046	540,000
Addition	—	104,046
Decrease in fair value recognised in the consolidated income statement	(10,689)	(16,062)
Exchange adjustment	921	—
Disposal	—	(523,938)
At end of the year	94,278	104,046

During the year ended 31 March 2009, the Group disposed of its investment properties in Hong Kong for a consideration, net of transaction costs, of approximately HK$523,938,000, resulting in a fair value loss of approximately HK$16,062,000. For cash flow purposes, approximately HK$515,735,000 was received in cash while the remaining HK$8,203,000 was settled through discharging the Group from a liability in relation to the rental deposits received by the Group.

The Group's remaining investment property was revalued by reference to market evidence of transaction prices for similar properties in the same location and condition by Greater China Appraisal Ltd., an independent qualified valuer at 31 March 2010. The remaining investment property is located in Mainland China and is held under a lease with 56 years remaining at 31 March 2010.

15. INTANGIBLE ASSETS

	Software
	HK$'000
COST	
At 1 April 2008	424
Exchange adjustments	(92)
Additions	701
Written off	(4)
At 31 March 2009 and 1 April 2009	1,029
Additions	514
Written off	(45)
At 31 March 2010	1,498
ACCUMULATED AMORTISATION	
At 1 April 2008	44
Exchange adjustments	(46)
Charge for the year	224
Written off	(2)
At 31 March 2009 and 1 April 2009	220
Charge for the year	423
Written off	(22)
At 31 March 2010	621
CARRYING VALUE	
At 31 March 2010	877
At 31 March 2009	809

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

16. DEVELOPMENT IN PROGRESS

During the year ended 31 March 2009, an agreement was entered into between the Governor's Administration Office of Khovd Province of Mongolia (the "Governor'') and MoEnCo LLC, a wholly owned subsidiary of the Company, regarding the right of use of a road granted by the Governor to MoEnCo LLC subject to certain conditions. Under the terms of the agreement, MoEnCo LLC will construct a road at its own cost from the Group's mine areas in Khushuut, western Mongolia to the Yarant border crossing with Xinjiang, PRC, with the construction permit granted to MoEnCo LLC from the Ministry of Road, Transportation and Tourism of the Mongolian government. In return, MoEnCo LLC enjoys the right, which was granted at the date of the agreement, for the unrestricted use of the road for 30 years (the "approved period''). The road will be opened to public use subject to certain weight restrictions whereupon the Group may direct users including commercial users. The Group is also responsible for maintenance of the road during the approved period. The Group will use the road mainly for the purpose of transporting coal from its mine areas to its customers in the PRC and the road was still under construction at 31 March 2010.

17. EXPLORATION AND EVALUATION ASSETS

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

Notes:

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

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

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

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

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

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

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

17. EXPLORATION AND EVALUATION ASSETS *(Continued)*

Notes: (Continued)

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

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

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

Mineral Resources Authority of Mongolia (the "MRAM") has prepared a preliminary list of licences (subject to the Mongolian government's final approval) that overlap with the defined prohibited areas under the MPL. The Group's iron ore exploration concession might be affected by the MPL under the preliminary list. Z LLC, a subsidiary of the Group which owns the iron ore exploration concession, received a notice from the MRAM about the potential revocation of its exploration concession under MPL and Z LLC was requested submission of the estimated compensation for termination of licenses with supporting documents. After taking the legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRAM's request as the Group did not consider the MPL, though enacted, has been implemented. The management also considers that even if the licenses were revoked due to the MPL, the Mongolia 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 2010. The enactment of the MPL represents a significant uncertainty to the Group, which might have a significant effect on the consolidated financial statements of the Group. If the Group's iron ore exploration concession was revoked due to the MPL and the Group was paid with compensation significantly less than the consideration the Group paid to acquire such concession, the Group would incur a significant impairment loss on the corresponding exploration and evaluation assets.

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

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

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

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

	2010	**2009**
	HK$'000	*HK$'000*
Cost of associates		
— unlisted shares, at cost	135,763	129,454
Share of results	(37,528)	(5,993)
Impairment losses	(56,636)	(55,783)
Less: transfer to available-for-sale financial asset *(Note 19)*		
— cost	(85,166)	—
— share of results	29,383	—
— impairment losses	55,783	—
	41,599	67,678
Amounts due from associates	206,241	206,258
Impairment losses	(2,587)	(983)
	203,654	205,275
Analysis for reporting purposes:		
Non-current	200,000	200,000
Current	3,654	5,275
	203,654	205,275

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

	2010	**2009**
	HK$'000	*HK$'000*
Total assets	342,775	735,118
Total liabilities	(229,007)	(525,068)
	113,768	210,050
Group's share of net assets of associates	41,599	67,678
Revenue	30,955	41,010
Loss for the year	(396,344)	(8,586)
Group's share of result of associates for the year	(31,535)	(3,170)

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

Details of the associates at 31 March 2010 and 2009 are as follows:

Name	Place of establishment/ incorporation	Particulars of issued/registered share capital	Interest held 2010	Interest held 2009	Principal activities
亞聯公務機有限公司	PRC	100,000,000 shares of RMB1.00 each	43%	43%	Provision of charter flight services and aircraft management
Upper Easy Enterprises Limited*	British Virgin Islands	5 shares of US$1.00 each	20%	20%	Investment holding
eGuanxi (Cayman) Limited	Cayman Islands	6,667,000 shares of US$1.00 each	25%	25%	Dormant
Xinjiang Kai Yu Yuan Mining Corporation Limited ("Xinjiang Kai Yu Yuan")[1*#]	PRC	RMB700,000,000	—	25%	Exploration and development of coal resources, iron and copper
Xinjiang Ka Yu Tong Logistics Park Company Limited[1*#] ("Xinjiang Kai Yu Tong")	PRC	RMB100,000,000	—	25%	Construction of a logistic park in Xinjiang, import and export service of equipment, mineral products and steel material
MoOiCo LLC ("MoOiCo")[2*]	Mongolia	US$10,000	20%	20%	Oil exploration
Profit Rise International Private Limited[1*]	Singapore	100 shares of S$1.00 each	20%	20%	Investment holding

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

2 Interest indirectly held by Profit Billion International Private Limited

* Mr. Liu, a substantial shareholder of the Company, owns the remaining shares in these associates

Associate redesignated as available-for-sale financial asset after dilution of equity interest from 25% to 19% on 23 March 2010.

At 31 March 2009, included in the cost of investment in associates is a premium of HK$55,928,000 for the acquisition of Xinjiang Kai Yu Yuan. Xinjiang Kai Yu Yuan has entered into agreements with (1) Xinjiang Coalfield and Geology Bureau and its Team 156 and (2) China National Administration Coal Geology 129 Exploration Team (collectively referred as the "Geological Bureaus") to establish two joint ventures for the further exploration of 2 billion tonnes of coal resources. According to the agreement, the Geological Bureaus are to contribute the exploration licensed areas containing the demonstrated 2 billion tonnes of coal resources to the joint ventures. The premium is attributable to exploration costs incurred by Xinjiang Kai Yu Yuan before the acquisition. As at 31 March 2009, the Group conducted an impairment assessment on its interest in Xinjiang Kai Yu Yuan. As the exploration licensed areas had not been transferred by the Geological Bureaus, this resulted in the impairment of HK$55,783,000 being recognised in the same year the associate was acquired.

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

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

There is no capital commitment contracted but not provided for in respect of further capital investment in an associate as at 31 March 2010 (2009: HK$Nil).

At 31 March 2009 and 2010, the amounts due from associates included an advance of HK$200,000,000 granted to Upper Easy Enterprises Limited, of which Mr. Liu is a substantial shareholder of the Company and he owns the remaining interest in Upper Easy Enterprises Limited. The advance was made for the purpose of securing a mineral resource project and therefore classified as a non-current asset. The expected timing for securing the project has been extended to on or before 30 September 2010. The remaining balances represent shareholder's loans to MoOiCo, a company which is engaged in an oil exploration project in Mongolia. That amount is unsecured, interest free and repayable on demand.

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

19. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2010 *HK$'000*	**2009** *HK$'000*
Unlisted equity investment transfer from interest in associates *(Note 18)*	—	—
Addition *(Note)*	3,024	—
Less: impairment loss	(3,024)	—
	—	—

Note: On 31 March 2010, a capital contribution of HK$3,024,000 by the Group had been made in proportional to the percentage of shareholding.

20. LOAN NOTE RECEIVABLE

	2010 *HK$'000*	2009 *HK$'000*
Addition, at fair value *(Note 31)*	37,390	—
Add: interest income accrued	277	—
	37,667	—
Analysed for reporting purposes as:		
Non-current assets	37,667	—

Note: The loan note has a face value of HK$46 million and was issued by VVH at 4% interest per annum and matures on 28 February 2012. It represents partial consideration of the disposal of the subsidiary (see Note 10) during the year. The loan note has been fair valued upon initial recognition. The effective interest rate is 7.61% per annum. The issuer has an option to redeem the whole or any part of the loan note before maturity at its principle amount and accrued interest up to redemption date. At initial recognition and at the end of the reporting period, the directors of the Group considered that the fair value of this embedded derivative was immaterial.

21. PREPAYMENTS FOR EXPLORATION AND EVALUATION EXPENDITURE

	2010 *HK$'000*	2009 *HK$'000*
Road improvement and drilling equipment transport	11,558	25,284
Exploration drilling	10,484	28,766
	22,042	54,050

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

	2010 *HK$'000*	2009 *HK$'000*
Aircraft *(Note 10)*	—	103,714
Electricity supply at mine site in Mongolia	48,898	48,898
Tractors, motor vehicles and others	14,658	17,915
	63,556	170,527

23. HELD-FOR-TRADING INVESTMENTS

	2010 *HK$'000*	2009 *HK$'000*
Equity securities of companies listed in Hong Kong	45,207	28,742

24. CASH AND CASH EQUIVALENTS

	2010	2009
	HK$'000	*HK$'000*
Bank balances and cash	58,104	20,285
Short-term bank deposits	63,195	640,604
	121,299	660,889

The weighted average effective interest rate on short-term bank deposits was 0.15% (2009: 0.52%) per annum. The maturity days of the short-term bank deposits ranged from one week to one month (2009: one week to one month). Cash at bank earns interest at rates based on daily bank deposit rates.

25. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

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

26. CONVERTIBLE NOTES

On 29 January 2008, the Company issued a 3% convertible note ("Convertible Note") at a total nominal value of HK$142.5 million. The Convertible Note has a maturity period of three years from the issue date to 28 January 2011 and can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$0.285 convertible note at the holder's option at any time between the issue date and the maturity date subject to anti-dilutive adjustments. Interest of 3% per annum will be paid up until the settlement date. The Convertible Note will be redeemed at the principal amount with accrued interest at settlement date.

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

The holder of the Zero Coupon Convertible Note has agreed in principle to extend the maturity date of not less than 18 months from 30 April 2011 subject to re-negotiation of certain terms.

Both convertible notes contain two components, a liability and an equity element. The equity element is presented in equity as part of the "capital reserve". The effective interest rate of the liability component for the Convertible Note and Zero Coupon Convertible Note is 11.23% per annum and 14.14% per annum respectively.

26. CONVERTIBLE NOTES *(Continued)*

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

	2010	**2009**
	HK$'000	*HK$'000*
At beginning of the year	1,647,166	114,880
Initial recognition	—	1,345,052
Interest expense *(Note 7)*	202,867	187,234
At end of the year	1,850,033	1,647,166

Analysed for reporting purposes as:

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

27. LOAN NOTE

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

The Company early redeemed part of the loan note with a principal amount of HK$687,500,000 for better cash flow management and incurred an early redemption loss of HK$100,371,000 during the year ended 31 March 2009. Interest on the loan note is payable on the maturity date on 28 January 2011 or upon repayment, whichever is earlier.

28. DEFERRED INCOME TAX LIABILITIES

The components of the deferred income tax account recognised in the consolidated statement of financial position (prior to offsetting of balances within the same tax jurisdiction) and the movements during the year are as follows:

	Investment properties
	HK$'000
At 1 April 2008	72,413
Credited to the income statement *(Note 9)*	(72,413)
At 31 March 2009 and 1 April 2009	—
Charged to the income statement *(Note 9)*	—
At 31 March 2010	—

28. DEFERRED INCOME TAX LIABILITIES *(Continued)*

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 2010, estimated tax losses of the Group not utilised were amounted to HK$87,545,000 (2009: HK$61,028,000). No deferred tax asset has been recognised for these tax losses as it is uncertain as to whether the relevant group companies will have sufficient future taxable profits to utilise these tax losses and whether the amount of tax loss is agreed by the relevant tax authority. Except for tax losses of HK$40,572,000 (2009: HK$14,055,000) expiring within 1 to 4 years, the remaining balances have no expiry date.

29. SHARE CAPITAL

Authorised and issued share capital

	2010	**2009**
	HK$'000	*HK$'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 2008	6,047,262,363	120,945
Issue of shares upon		
— Exercise of share options *(Note)*	958,000	19
At 31 March 2009 and 1 April 2009	6,048,220,363	120,964
Issue of shares		
— Acquisition of an exploration right *(Note 17b)*	54,577,465	1,092
— Exercise of share options *(Note)*	100,000	2
At 31 March 2010	6,102,897,828	122,058

Note: During the year, share options to subscribe for 100,000 (2009: 958,000) shares were exercised, of which HK$2,000 (2009: HK$19,000) was credited to share capital and the balance of HK$311,000 (2009: HK$5,987,000) was credited to the share premium account.

30. SHARE-BASED PAYMENT COMPENSATION

Equity-settled share option scheme

Under the share option schemes adopted by the Company on 22 September 2000 (the "Terminated Option Scheme") and 28 August 2002 (the "Existing Option Scheme"), options were granted to certain directors and employees of the Group entitling them to subscribe for shares of the Company. The Terminated Option Scheme was terminated on 28 August 2002 upon the adoption of the Existing Option Scheme.

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

	2010		2009	
	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	3.9147	10,090,870	6.1049	4,799,270
Granted	3.3998	4,500,000	2.4102	6,375,000
Exercised	2.1340	(100,000)	4.5828	(958,000)
Lapsed/cancelled	6.4859	(3,840,200)	6.1420	(125,400)
Exercisable at end of the year	2.7871	10,650,670	3.9147	10,090,870

Options exercised during the year ended 31 March 2010 resulted in 100,000 ordinary shares (2009: 958,000) being issued at the weighted average exercise price of HK$2.1340 (2009: HK$4.5828) each. The related weighted average share price at the time of exercise was HK$4.070 (2009: HK$8.269) per share.

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

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

Equity-settled share option scheme *(Continued)*

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

Date of grant	Exercise price *HK$*	Exercise period	Number of shares subject to options **2010**	2009
1-3-2005	0.1695 *(Note 1)*	1-3-2005 to 28-2-2012	670	670
15-2-2006	0.1636	15-2-2006 to 16-4-2009	—	200
23-4-2007	4.62	23-4-2007 to 1-4-2009	—	1,150,000
26-3-2008	7.284 *(Note 2)*	26-3-2008 to 25-3-2010	—	2,690,000
18-8-2008	6.142	18-8-2008 to 17-8-2010	250,000	250,000
2-2-2009	2.134	2-2-2009 to 1-2-2012	2,900,000	3,000,000
6-2-2009	2.22	6-2-2009 to 5-2-2011	3,000,000	3,000,000
1-4-2009	2.358	1-4-2009 to 31-3-2011	500,000	—
13-8-2009	2.890	13-8-2009 to 12-8-2011	2,000,000	—
13-11-2009	4.170	13-11-2009 to 12-11-2011	2,000,000	—
			10,650,670	10,090,870

Notes:

(1) The exercise price was adjusted from HK$0.1933 to HK$0.1695 pursuant to the rights issue of the Company during the year ended 31 March 2006.

(2) Options were lapsed/cancelled during the year.

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

	18 August 2008	**2 February 2009**	**6 February 2009**	**1 April 2009**	**13 August 2009**	**13 November 2009**
Option value (at grant date)	HK$540,218	HK$2,994,609	HK$3,037,170	HK$490,245	HK$2,543,300	HK$3,626,140
Fair value per option (at grant date)	HK$1.441	HK$0.998	HK$1.012	HK$0.980	HK$1.272	HK$1.813
Significant inputs into the valuation model:						
Exercise price at grant date	HK$6.142	HK$2.134	HK$2.22	HK$2.358	HK$2.89	HK$4.17
Share price at grant date	HK$3.5	HK$2.09	HK$2.22	HK$2.24	HK$2.89	HK$4.17
Expected volatility *(note)*	136.02%	137.58%	132.78%	119.13%	116.85%	112.74%
Risk-free interest rate	2.119%	1.053%	0.526%	0.730%	0.504%	0.356%
Expected life of options	2 years	3 years	2 years	2 years	2 years	2 years
Expected dividend yield	0%	0%	0%	0%	0%	0%

Note: The expected volatility is measured at the standard deviation of the expected share price return and is based on statistical analysis of daily share prices over the last 6 months before the respective dates of grant. The expected life used in the model has been estimated, based on management's best estimate, for the effects of non transferability, exercise restrictions and behaviour considerations.

The Group recognised the total expense of HK$6,660,000 for the year ended 31 March 2010 (2009: HK$6,572,000) in relation to share options granted by the Company.

31. DISPOSAL OF A SUBSIDIARY

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

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

	HK$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	92,190
Trade receivables	773
Other receivables	800
Trade and other payables	(2,879)
	90,884
Satisfied by:	
Cash	48,694
Loan note, at fair value *(Note 20)*	37,390
	86,084
Loss on disposal of a subsidiary	
Consideration received and receivable	86,084
Net assets disposed of	(90,884)
	(4,800)
Net cash inflow on disposal of a subsidiary	48,694

The subsidiary disposed of during the year contributed to the Group's revenue and losses approximately HK$2,392,000 and HK$39,842,000 respectively.

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

32. COMMITMENTS

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

(a) Commitments under operating leases

At 31 March 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Not later than one year	15,186	15,853
Later than one year and not later than five years	3,633	12,926
	18,819	28,779

Operating leases related to offices and staff quarters with lease terms of between 1 to 5 years (2009: 1 to 5 years).

(b) Capital commitment

At 31 March 2010, the Group had capital commitments contracted for but not provided for amounting to approximately HK$179,837,000 (2009: HK$671,209,000). These commitments are for the following projects:

	2010	**2009**
	HK$'000	*HK$'000*
Acquisition of an aircraft	—	192,153
Road construction *(Note 16)*	53,861	289,629
Road improvement and drilling equipment transport *(Note 17)*	34,455	51,415
Exploration drilling *(Note 17)*	50,387	52,296
Mine design	454	41,921
Other exploration related commitments	36,737	43,795
Purchase of property, plant and equipment	3,516	—
Purchase of intangible assets	427	—
	179,837	671,209

33. FINANCIAL INFORMATION OF THE COMPANY

	2010	2009
	HK$'000	*HK$'000*
Total assets	15,369,630	15,212,577
Total liabilities	(2,449,066)	(2,008,624)
Net assets	12,920,564	13,203,953
Financed by:		
Equity		
Capital and reserves attributable to the Company's owners		
Share capital	122,058	120,964
Reserves	12,798,506	13,082,989
	12,920,564	13,203,953

Reserves

	Share premium	Contributed surplus	Capital reserve	Share options reserve	Accumulated losses	Total
	HK$'000	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 April 2008	9,132,405	199,594	3,529,218	8,225	(85,863)	12,783,579
Loss for the year	—	—	—	—	(366,481)	(366,481)
Recognition of equity-settled share based payments	—	—	—	6,572	—	6,572
Convertible note – equity component	—	—	654,948	—	—	654,948
Issue of shares						
— Exercise of share options	5,987	—	—	(1,616)	—	4,371
Balance at 31 March 2009 and 1 April 2009	9,138,392	199,594	4,184,166	13,181	(452,344)	13,082,989
Loss for the year	—	—	—	—	(459,454)	(459,454)
Recognition of equity-settled share based payments	—	—	—	6,660	—	6,660
Issue of shares						
— Acquisition of an exploration right	168,100	—	—	—	—	168,100
— Exercise of share options	311	—	—	(100)	—	211
Balance at 31 March 2010	9,306,803	199,594	4,184,166	19,741	(911,798)	12,798,506

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.

34. RELATED PARTY TRANSACTIONS

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

(a) Flight services provided to

	2010	2009
	HK$'000	*HK$'000*
Associates	1,104	672

(b) Services rendered by

	2010	2009
	HK$'000	*HK$'000*
Associates	11,606	19,397

(c) Loan to associates

	2010	2009
	HK$'000	*HK$'000*
Granted during the year	2,045	6,258

(d) Key management compensation

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

	2010	2009
	HK$'000	*HK$'000*
Basic salaries, other allowances and benefits in kind	19,286	19,750
Share based payments	6,169	6,032
Contributions to MPF Scheme	53	48
	25,508	25,830

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 March 2010 and 31 March 2009:

Name	Place of incorporation	Particulars of issued share capital	Effective interest held		Principal activities
			2010	2009	
Business Aviation Asia Limited	Hong Kong	1 share of HK$1.00	100%	100%	Investment holding
Cyber Network Technology Limited*	British Virgin Islands	1 share of US$1.00	100%	100%	Investment holding
Gamerian Limited*	British Virgin Islands	1 share of US$1.00	100%	100%	Investment holding
Glory Key Investments Limited	British Virgin Islands	1 share of US$1.00	Nil#	100%	Investment holding
Mongolia Energy Corporation (Greater China) Ltd.	Hong Kong	2 shares of HK$1.00 each	100%	100%	Management services
Virtue Team Investments Limited	Hong Kong	2 shares of HK$1.00 each	100%	100%	Management services
Mongolia Energy Corporation Services Limited	Hong Kong	2 shares of HK$1.00 each	100%	100%	Provision of secretarial and nominee services
MoEnCo LLC	Mongolia	1,010,000 shares of US$1.00 each	100%	100%	Minerals exploration and mining activities

* Subsidiaries directly held by the Company.

\# Subsidiary was disposed during the year

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

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

36. RETIREMENT BENEFITS SCHEME

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

37. SUBSEQUENT EVENT

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

4. MATERIAL CHANGES

As at the Latest Practicable Date, the Directors confirmed that there was no material change in the financial or trading position or outlook of the Group since 31 March 2010, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. INDEBTEDNESS

At the close of business on 30 April 2010, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had the following borrowings:

(i) unsecured convertible note with nominal amount of HK$142.5 million and maturity date on 29 January 2011. Interest is payable on the outstanding principal amount at a simple interest rate of 3% per annum (a) on the maturity date; (b) in the event of a redemption by the Company with the consent of the note holder; or (c) upon the occurrence of an event of default. The note holder shall have the right to convert on any business day from the issue date to the maturity date, the whole or part of the principal outstanding amount of the note into new ordinary shares of the Company at the conversion price of HK$0.285 per Share (subject to adjustments).

(ii) unsecured loan note with outstanding principal amount of HK$100 million and maturity date on 29 January 2011. Interest is payable on the outstanding principal amount at a simple interest rate of 5% per annum (a) on the maturity date; (b) in the event of a redemption by the Company; or (c) upon the occurrence of an event of default. The Company has a right at any time prior to the maturity date to prepay the whole or part of the principal amount of this note together with any unpaid interest on the principal amount prepaid.

(iii) unsecured zero coupon convertible note with outstanding principal amount of HK$2 billion and maturity date on 30 April 2011. The note holder shall have the right to convert on any business day from the issue date up to the business day immediately prior to the maturity date, the whole or part of the principal outstanding amount of the note into new ordinary shares of the Company at the conversion price of HK$7.3 per Share (subject to adjustments).

At the close of business on 30 April 2010, the Company had authorised but unissued loan notes in respect of the "pay as demonstrated" resources fees for the acquisition of coal resources, ferrous resources and non-ferrous resources in western Mongolia pursuant to agreements dated 29 May 2007 and 5 May 2008 entered into by, among others, the Group and the seller of the resources. The payment of the resources fee will be satisfied by way of loan notes at 3% coupon rate per annum with 5-year maturity. The "pay as demonstrated" resources fees will be paid as follows:

(a) coal resources fees: HK$2.00 per tonne

(b) ferrous resources fees: 0.5% of the prevailing international market price for the relevant ferrous metal of the quality and type

(c) non-ferrous resources fees: 0.5% of the prevailing international market price for the relevant non-ferrous metal of the quality and type

Details of the agreements for the acquisition of the resources, the "pay as demonstrated" resources fees and the loan notes are set out in the circular and the announcement of the Company dated 25 June 2007 and 5 May 2008 respectively.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 30 April 2010, the Group did not have outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Subscriber) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The sole director of the Subscriber accepts full responsibility for the accuracy of the information contained in this circular (other than information relating to the Group) and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

This circular, for which the Directors collectively and individually accept full responsibility (other than in respect of information relating to the Subscriber) and the sole director of the Subscriber accepts full responsibility (other than in respect of information relating to the Group), includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group.

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular (other than information relating to the Subscriber) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The sole director of the Subscriber, having made all reasonable enquiries, confirm that to the best of his knowledge and belief the information contained in this circular (other than information relating to the Group) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capitals of the Company as at the Latest Practicable Date were, and immediately after full conversion of the GI Convertible Note will be, as follows:

Authorised:		*HK$*
15,000,000,000	Shares	300,000,000.00
Issued and fully paid:		
6,103,247,828	Shares in issue as at the Latest Practicable Date	122,064,956.56
75,000,000	GI Conversion Shares to be issued pursuant to full conversion of the GI Convertible Note at the initial GI Conversion Price	1,500,000.00
6,178,247,828	Shares	123,564,956.56

All the existing Shares in issue rank pari passu in all respects including the rights as to voting, dividends, voting and return of capital. The GI Conversion Shares to be issued upon the exercise of the conversion rights attaching to the GI Convertible Note will rank pari passu in all respects with all other Shares outstanding at the date of exercise of the conversion rights and be entitled to all dividends and other distributions the record date for which falls on a date on or after the date of exercise of the conversion rights.

There has been no alteration to the authorised share capital of the Company since 31 March 2010 and up to the Latest Practicable Date.

On 20 April 2010 and 19 July 2010, 150,000 and 200,000 new Shares were issued by the Company respectively pursuant to the exercise of share options of the Company. Save as aforesaid, the Company has not issued any new Shares since 31 March 2010 and up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company had outstanding unsecured 2008 Puraway Convertible Bond with outstanding principal amount of approximately HK$142.5 million and maturity date on 29 January 2011. The 2008 Puraway Convertible Bond bears interest at a coupon rate of 3% per annum. The holder of the 2008 Puraway Convertible Bond has the right to convert on any business day from the issue date (being 29 January 2008) to the maturity date, the whole or part of the principal outstanding amount of the 2008 Puraway Convertible Bond into new ordinary shares of the Company at the initial conversion price of HK$0.285 per Share (subject to adjustments).

As at the Latest Practicable Date, the Company had outstanding unsecured 2008 CTF Convertible Note with outstanding principal amount of HK$2 billion and maturity date on 30 April 2011. The holder of the 2008 CTF Convertible Note has the right to convert on any business day from the issue date (being 30 April 2008) up to the business day immediately prior to the maturity date, the whole or part of the principal outstanding amount of the 2008 CTF Convertible Note into new ordinary shares of the Company at the initial conversion price of HK$7.3 per Share (subject to adjustments).

Details of the outstanding options of the Company as at the Latest Practicable Date were as follows:

	Exercise price per Share *HK$*	**Date of grant**	**Exercisable period**	**Number of underlying Shares subject to outstanding options interested**
Directors				
Mr. Lo	4.110	9 April 2010	12 April 2010 to 8 April 2015	6,000,000
Ms. Yvette Ong	4.110	9 April 2010	12 April 2010 to 8 April 2015	500,000
Mr. To Hin Tsun, Gerald	4.110	9 April 2010	12 April 2010 to 8 April 2015	500,000
Mr. Peter Pun	4.110	9 April 2010	12 April 2010 to 8 April 2015	500,000
Mr. Tsui Hing Chuen, William	4.110	9 April 2010	12 April 2010 to 8 April 2015	500,000
Mr. Lau Wai Piu	4.110	9 April 2010	12 April 2010 to 8 April 2015	500,000

	Exercise price per Share *HK$*	Date of grant	Exercisable period	Vesting period	Number of underlying Shares subject to outstanding options interested
Employees and others in aggregate (including director of certain subsidiaries)	0.1695	1 March 2005	1 March 2005 to 28 February 2012	1 March 2005 to 31 August 2005	670
	6.142	18 August 2008	18 August 2008 to 17 August 2010	N/A	250,000
	2.134	2 February 2009	2 February 2009 to 1 February 2012	N/A	2,550,000
	2.220	6 February 2009	6 February 2009 to 5 February 2011	N/A	3,000,000
	2.358	1 April 2009	1 April 2009 to 31 March 2011	N/A	500,000
	2.890	13 August 2009	13 August 2009 to 12 August 2011	N/A	2,000,000
	4.170	13 November 2009	13 November 2009 to 12 November 2011	N/A	2,000,000
	4.110	9 April 2010	12 April 2010 to 8 April 2015	N/A	3,300,000

Save as disclosed above, the Company did not have any other outstanding warrants, options or securities convertible into Shares as at the Latest Practicable Date.

3. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last trading day of the Stock Exchange for each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	**Closing price per share** *HK$*
30 October 2009	3.34
30 November 2009	4.70
31 December 2009	3.98
29 January 2010	3.82
26 February 2010	3.61
31 March 2010	3.59
27 April 2010 (Last Trading Day)	3.67
30 April 2010	3.64
31 May 2010	2.86
30 June 2010	2.75
Latest Practicable Date	2.88

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the Relevant Period were HK$5.49 per Share on 4 December 2009 and HK$2.60 per Share on 26 May 2010 respectively.

4. DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares

Name of Director	Capacity	Number of issued Shares interested or deemed to be interested	Number of underlying Shares interested or deemed to be interested	Total	Approximate percentage of the existing issued share capital of the Company
Mr. Lo	Beneficial owner	4,960,000 *(Note 1)*	6,000,000 *(Note 1)*	1,281,739,301	21.00%
	Interest of a controlled corporation	1,194,029,301 *(Note 1)*	75,000,000 *(Note 2)*		
	Interest of spouse	1,750,000 *(Note 1)*	—		
Ms. Yvette Ong	Beneficial owner	1,090,000	500,000 *(Note 3)*	1,590,000	0.03%
Mr. To Hin Tsun, Gerald	Beneficial owner	5,400,000	500,000 *(Note 3)*	5,900,000	0.10%
Mr. Tsui Hing Chuen, William	Beneficial owner	500,000	500,000 *(Note 3)*	1,000,000	0.02%
Mr. Peter Pun	Beneficial owner	—	500,000 *(Note 3)*	500,000	0.01%
Mr. Lau Wai Piu	Beneficial owner	201,200	500,000 *(Note 3)*	701,200	0.01%

Notes:

1. 4,960,000 Shares represent interest of Mr. Lo on an individual basis, while 1,194,029,301 Shares represent interest of the Subscriber. The balancing of 1,750,000 Shares represent interest of Ms. Ku Ming Mei, Rouisa ("**Mrs. Lo**"), the spouse of Mr. Lo. Accordingly, Mr. Lo is deemed to be interested in the Shares in which the Subscriber and Mrs. Lo are interested by virtue of the SFO. 6,000,000 underlying Shares represent the new Shares to be issued to Mr. Lo upon the exercise of the share options which were granted to Mr. Lo on 9 April 2010 pursuant to the share option scheme of the Company.

2. The 75,000,000 underlying Shares represent the new Shares to be issued by the Company upon full conversion at the initial GI Conversion Price of HK$4 per GI Conversion Share of the GI Convertible Note to be issued by the Company to the Subscriber pursuant to the Subscription Agreement. Details of the GI Convertible Note and the Subscription Agreement are set out in the section headed "Letter from the Board" in this circular.

   The Subscriber is wholly owned by Mr. Lo. Accordingly, Mr. Lo is deemed to be interested in the underlying Shares in which the Subscriber is interested.

3. These underlying Shares represent the new Shares to be issued to the respective Directors upon the exercise of the share options which were granted to the respective Directors on 9 April 2010 pursuant to the share option scheme of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company were interested or were deemed to have interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed below, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company which had such discloseable interest or short position	Position within such company
Mr. Lo	The Subscriber	Director

5. OTHER DISCLOSURE

(a) As at the Latest Practicable Date, save as disclosed in the sections headed "Shareholding structure of the Company" in the "Letter from the Board" of this circular, "Share capital" and "Disclosure of interests" above in this appendix and paragraph 5(b) below, none of the Directors and members of the Concert Group owned or controlled or were interested in any other Shares, convertible securities, warrants, options or derivatives of the Company.

(b) On 25 March 2010, 690,000 options granted to Mr. Lo pursuant to the share option scheme of the Company and carrying right to subscribe for an aggregate of 690,000 Shares at HK$7.284 per Share during the period from 26 March 2008 to 25 March 2010 were lapsed. On 9 April 2010, 6,000,000 options carrying right to subscribe for an aggregate of 6,000,000 Shares at HK$4.110 per Share during the period from 12 April 2010 to 8 April 2015 were granted to Mr. Lo and 500,000 options carrying right to subscribe for an aggregate of 500,000 Shares at HK$4.110 per Share during the period from 12 April 2010 to 8 April 2015 were granted to each of Ms. Yvette Ong, Mr. To Hin Tsun, Gerald, Mr. Peter Pun, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu pursuant to the share option scheme of the Company. The consideration for such grant of options to each of the grantees is HK$1. Save as aforesaid and save and except for the entering into of the Subscription Agreement by the Subscriber, none of the Directors and members of the Concert Group had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(c) Save that the Subscriber is wholly and beneficially owned by Mr. Lo, none of the Company and the Directors were interested in or owned or controlled any shares, convertible securities, warrants, options or derivatives of the Subscriber as at the Latest Practicable Date nor had any of them dealt for value in any shares, convertible securities, warrants, options or derivatives of the Subscriber during the Relevant Period.

(d) Save for 1,209 Shares held by Taifook Securities Company Limited (being a fellow subsidiary of Taifook Capital Limited) as at the Latest Practicable Date, none of the advisers to the Company as specified in class (2) of the definition of associate in the Takeovers Code (excluding exempt principal traders) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date nor had any of them dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the period beginning the date of the Announcement and ending on the Latest Practicable Date.

(e) None of the subsidiaries of the Company, or pension fund of the Company or of a subsidiary of the Company owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date nor had any of them dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the period beginning the date of the Announcement and ending on the Latest Practicable Date.

(f) No fund managers (other than exempt fund managers) connected with the Company managed on a discretionary basis any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date nor had any of them dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company which were managed on a discretionary basis during the period beginning the date of the Announcement and ending on the Latest Practicable Date.

(g) As at the Latest Practicable Date, none of the Independent Shareholders had irrevocably committed themselves to vote for or against the Subscription and/or the Whitewash Waiver.

(h) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) existed between any of the members of the Concert Group and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription and/or the Whitewash Waiver.

(i) None of the members of the Concert Group had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(j) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code or any member of the Concert Group.

(k) As at the Latest Practicable Date, neither the Company nor the Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company.

(l) It is the intention of the Subscriber to continue the existing business of the Group and to continue the employment of the employees of the Group. The Subscriber has no intention to redeploy the fixed assets of the Group or to introduce major changes to the business of the Group.

(m) As at the Latest Practicable Date, Ms. Yvette Ong, Mr. To Hin Tsun, Gerald, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu, Directors, intended to vote for the resolutions in relation to the Subscription and the Whitewash Waiver at the SGM in respect of their own beneficial shareholdings. Mr. Lo and his spouse and the Subscriber will abstain from voting on the resolutions in relation to the Subscription and the Whitewash Waiver at the SGM.

(n) As at the Latest Practicable Date, there was no agreement, arrangement or understanding pursuant to which the GI Convertible Note to be subscribed by the Subscriber pursuant to the Subscription Agreement or the GI Conversion Shares falling to be issued on conversion of the GI Convertible Note would be transferred, charged or pledged to any other persons.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and so far as the Directors were aware, no litigation, arbitration or claim of material importance was pending or threatened by or against any member of the Group or to which the Company or any of its subsidiaries was, or might become, a party.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, (i) none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (a) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Announcement; (b) are continuous contracts with a notice period of 12 months or more; or (c) are fixed term contracts with more than 12 months to run irrespective of the notice period; and (ii) none of the Directors had any existing or proposed service contracts with any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

8. ARRANGEMENTS AFFECTING DIRECTORS AND DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

(a) No benefit has been or will be given to any Director as compensation for loss of office or otherwise in connection with the Subscription and/or the Whitewash Waiver.

(b) As at the Latest Practicable Date, save and except for the Subscription Agreement which was conditional upon the Whitewash Waiver being granted, there was no other agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Subscription and/or the Whitewash Waiver or otherwise connected with the Subscription and/or the Whitewash Waiver.

(c) As at the Latest Practicable Date, there was no material contract entered into by the Subscriber in which any Director (excluding Mr. Lo) had a material personal interest.

(d) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 March 2010 (the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(e) Save for the Subscription Agreement and a standby revolving facility provided by Mr. Lo to the Company with a facility amount of HK$350 million carrying interest at prime rate quoted by the Hongkong and Shanghai Banking Corporation Limited at the date of drawdown (of which HK$140 million had been drawn down as at the Latest Practicable Date), no contract or arrangement in which any of the Directors is materially interested and which is significant in relation to the business of the Group subsisted at the Latest Practicable Date.

9. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business 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.

10. EXPERT AND CONSENT

The following is the qualification of the expert who has given advice or opinion contained in this circular:

Name	Qualifications
Somerley	a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Somerley did not have any shareholding in any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. As at the Latest Practicable Date, Somerley did not have any direct or indirect interest in any assets which have been, since 31 March 2010 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

11. MATERIAL CONTRACT

Save for the Subscription Agreement, no contract (not being contracts entered into in the ordinary course of business) had been entered into by any member of the Group after the date the two years immediately preceding the date of the Announcement up to and including the Latest Practicable Date which are or may be material.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the head office and principal place of business of the Company in Hong Kong at 40th Floor, New World Tower 1, 16-18 Queen's Road Central, Hong Kong; (ii) on the website of the Securities and Futures Commission (www.sfc.hk); and (iii) on the Company's website at www.mongolia-energy.com from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the memorandum and articles of association of the Subscriber;

(c) the annual reports of the Company for the two years ended 31 March 2009 and 2010;

(d) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(e) the letter of advice from Somerley, the text of which is set out in the section headed "Letter from Somerley" in this circular;

(f) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(g) the written consent referred to in the paragraph headed "Expert and consent" in this appendix; and

(h) the material contract referred to in the paragraph headed "Material contract" in this appendix.

13. MISCELLANEOUS

(a) The secretary of the Company is Mr. Tang Chi Kei, *CPA*. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

(b) The principal place of business of the Company in Hong Kong is at 40th and 41st Floors, New World Tower 1, 16-18 Queen's Road Central, Hong Kong.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The principal members of the Concert Group are the Subscriber, CTF Nominee, Dragon Noble Group Limited, Mr. Lo and his spouse, Dato' Dr. Cheng Yu Tung, Dr. Cheng Kar Shun and his spouse. The registered office of the Subscriber is Tropic Isle Building, P.O. Box 438, Road Town, Tortola, British Virgin Islands and its correspondence address is 41st Floor, New World Tower 1, 16-18 Queen's Road Central, Hong Kong. The sole director of the Subscriber is Mr. Lo. The registered office and correspondence address of CTF Nominee is 31st Floor, New World Tower, 16-18 Queen's Road Central, Hong Kong. The directors of CTF Nominee are Dato' Dr. Cheng Yu Tung, Dr. Cheng Kar Shun, Mr. Cheng Yu Wai and Mr. Cheng Kam Biu, Wilson. The registered office of Dragon Noble Group Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and its correspondence address is 32nd Floor, New World Tower, 16-18 Queen's Road Central, Hong Kong. The directors of Dragon Noble Group Limited are Mr. Cheng Kar Shun and Mr. Cheng Chi Kong.

(e) The registered office of Taifook Capital Limited is 25th Floor, New World Tower, 16-18 Queen's Road Central, Hong Kong.

(f) The registered office of Somerley is 10th Floor, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong.

(g) The English text of this circular and accompanying form of proxy shall prevail over their respective Chinese text in case of inconsistency.

MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of Mongolia Energy Corporation Limited ("**MEC**") will be held at JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 30 August 2010 at 3:15 p.m. (or immediately after the conclusion or adjournment of the annual general meeting which is to be convened on the same day and at the same place at 2:30 p.m.) for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the transactions contemplated under the subscription agreement ("**Subscription Agreement**", a copy of which has been produced to the meeting and marked "A" and signed by the Chairman of the meeting for the purpose of identification) dated 27 April 2010 entered into between MEC and Golden Infinity Co., Ltd. (the "**Subscriber**") including (i) the issue by MEC pursuant to the Subscription Agreement of 3.5% convertible note (the "**Convertible Note**") in a principal amount of HK$300,000,000 entitling the holders thereof to convert the principal amount thereof into ordinary shares of MEC (the "**Conversion Shares**") at an initial conversion price of HK$4.00 per Conversion Share (subject to adjustments) and (ii) the issue and allotment of the Conversion Shares upon an exercise of the conversion rights attaching to the Convertible Note be and are hereby approved; and

(b) the directors of the Company (the "**Directors**") be and are hereby authorised to exercise all the powers of MEC and take all steps as might in their opinion be desirable, necessary or expedient in relation to the issue of the Convertible Note and the issue and allotment of the Conversion Shares and otherwise in connection with the implementation of the transactions contemplated under the Subscription Agreement including without limitation to the execution, amendment, supplement, delivery, submission and implementation of any further documents or agreements in connection therewith."

2. "**THAT** subject to and conditional on the passing of ordinary resolution no. 1, the waiver granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong and any delegate of such Executive Director pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**") in respect of the obligation on the part of the Subscriber to make a mandatory general offer to the holders of the securities of MEC for all securities of MEC in issue not already owned by the Subscriber or parties acting in concert with it under Rule 26 of the Takeovers Code as a result of the allotment and issue of new shares of MEC upon the exercise of conversion rights attaching to the Convertible Note be and is hereby approved."

By order of the Board
Mongolia Energy Corporation Limited
Tang Chi Kei
Company Secretary

Hong Kong, 30 July 2010

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
40th and 41st Floors
New World Tower 1
16-18 Queen's Road Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the SGM convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of MEC.

2. A form of proxy for use at the SGM is enclosed. In order to be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, shall be delivered to the offices of MEC's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Delivery of a form of proxy will not preclude a member from attending and voting in person at the SGM and in such event, the form of proxy shall be deemed to be revoked.

3. In the case of joint holders of a share, if more than one of such joint holders be present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of MEC in respect of such joint holding.

4. As at the date of this notice, the board of Directors comprises seven Directors, of which Mr. Lo Lin Shing, Simon, Mr. Liu Zhuo Wei, and Ms. Yvette Ong are executive Directors, Mr. To Hin Tsun, Gerald is a non-executive Director and Mr. Peter Pun *OBE, JP*, Mr. Tsui Hing Chuen, William *JP* and Mr. Lau Wai Piu are independent non-executive Directors.