# MONGOLIA ENERGY CORPORATION LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 276)**

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2013

The directors (the "**Directors**") of Mongolia Energy Corporation Limited (the "**Company**") announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 March 2013 together with the comparative figures in the previous year as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 March 2013*

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

| | *Notes* | **2013** **HK$'000** | 2012 *HK$'000* |
|---|---|---|---|
| **Loss for the year** | | **(3,698,818)** | (4,832,172) |
| **Loss for the year attributable to owners of the Company** | | **(3,698,818)** | (4,832,172) |
| **Loss per share attributable to owners of the Company** | *9* | | |
| – basic and diluted loss per share (HK cents) | | **(54.74)** | (73.04) |

*Note:*

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 March 2013*

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 March 2013*

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

| | Notes | **2013** *HK$'000* | 2012 *HK$'000* |
|---|---|---|---|
| **Non-current liability** | | | |
| Convertible notes | *12* | **2,206,661** | 2,506,364 |
| **Net assets** | | **4,646,102** | 8,345,314 |
| **Financed by:** | | | |
| **Capital and reserves** | | | |
| Share capital | | **135,131** | 135,131 |
| Reserves | | **4,510,971** | 8,210,126 |
| **Equity attributable to owners of the Company** | | **4,646,102** | 8,345,257 |
| **Non-controlling interests** | | **–** | 57 |
| **Total equity** | | **4,646,102** | 8,345,314 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

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

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

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group. While recognising that the Group had net current liabilities of approximately HK$1,376.5 million at 31 March 2013 and incurred a loss of approximately HK$3,698.8 million for the year then ended, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future as Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and chairman of the Company, has provided facilities amounting to HK$1,900.0 million with maturity date on 30 April 2014, of which approximately HK$1,430.0 million was unutilised as at 31 March 2013 to meet the Group's future funding needs. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

In the current financial year, the Group has applied the following amendments to HKFRSs issued by the HKICPA:

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

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

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

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

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

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

**HKFRS 13 "Fair Value Measurement"**

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial Instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope. HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 April 2013 and that the application of the new standard is unlikely to affect the amounts reported in the consolidated financial statements but will lead to more extensive disclosures in relation to fair value measurement of its convertible bonds.

## 3. IMPAIRMENT LOSS RECOGNISED ON KHUSHUUT MINE RELATED ASSETS

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

As the recoverable amount of the Khushuut Related Assets determined by the Independent Valuer is significantly lower than their carrying values, an impairment loss amounting to HK$3,134,932,000 (2012: HK$4,600,000,000) was recognised in profit or loss during the year against the respective assets on a pro-rata basis with reference to their carrying values as follows:

**For the year ended 31 March 2013**

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

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

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

For the year ended 31 March 2012

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

The main reason for such a significant impairment loss being recognised in profit and loss during the year ended 31 March 2012 is due to a change made to the Group's business plan. Without obtaining the water permit for setting up a coal processing plant at the site, unprocessed coking coal is sold to its customers at a lower price to reflect the fact that its customers will have to wash and process the coking coal themselves. The original plan was to have a coal processing plant set up at the Khushuut mine site. However, due to continued delays of obtaining a water permit for the coal processing plant and in view of the pressing need of generating cash inflow from this operation, the Group has decided to build a coal washing plant with a smaller capacity in Xinjiang, the PRC before a permanent washing plant is set up in Khushuut. This change has a significant impact to the cash inflow to be generated by the Group in next two years and negatively impacts the value in use calculation.

## 4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the energy and related resources business. Revenue represents revenue arising on the sale of coking coal to external customers. During the year ended 31 March 2013, as the Group was still at its initial stage of commercial production, it had two (2012: one) customers that individually exceeded 10% of the Group's turnover, amounting to HK$6,604,000 (2012: HK$6,124,000) and HK$4,269,000 (2012: HK$ Nil).

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

### Segment revenue and result

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

***For the year ended 31 March 2013***

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

*For the year ended 31 March 2012*

| | Coal mining *HK$'000* | Total *HK$'000* |
|---|---|---|
| Segment revenue | 6,215 | 6,215 |
| Segment loss | (4,899,358) | (4,899,358) |
| Unallocated expenses *(Note)* | | (107,515) |
| Interest income | | 18 |
| Other gains and losses | | (3,425) |
| Fair value gain on derivative component of convertible notes | | 432,016 |
| Impairment loss on available-for-sale financial asset | | (6,797) |
| Impairment losses on loans to associates | | (1,207) |
| Share of losses of associates | | (6,222) |
| Finance costs | | (247,067) |
| Loss before taxation | | (4,839,557) |

*Note:*

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

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

**Segment assets and liabilities**

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

***As at 31 March 2013***

| | ***HK$'000*** |
|---|---|
| **ASSETS** | |
| Segment assets – coal mining | **7,884,854** |
| Investment property | **124,900** |
| Held-for-trading investments | **26,528** |
| Amounts due from associates | **1,225** |
| Cash and cash equivalents | **7,711** |
| Other unallocated assets *(Note a)* | **291,640** |
| Consolidated total assets | **8,336,858** |

| | ***HK$'000*** |
|---|---|
| **LIABILITIES** | |
| Segment liabilities – coal mining | **175,922** |
| Convertible notes | **2,947,940** |
| Advances from a Director | **470,013** |
| Other loan | **51,527** |
| Other unallocated liabilities *(Note b)* | **45,354** |
| Consolidated total liabilities | **3,690,756** |

*As at 31 March 2012*

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

*Note:*

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

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

**Other segment information**

***For the year ended 31 March***

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

*Coal mining*

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

*Note:*

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

**Geographical information**

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

All the coal sales revenue is derived from Mongolia.

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

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

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

## 5. OTHER GAINS AND LOSSES

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

*Note:*

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

## 6. FINANCE COSTS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on borrowings wholly repayable within five years: | | |
| Interest expense: | | |
| Convertible notes *(Note 12)* | **353,717** | 273,389 |
| Advances from a Director | **33,499** | 18,064 |
| Other loan | **1,527** | – |
| Less: interest expense capitalised *(Note)* | **–** | (44,386) |
| | **388,743** | 247,067 |

*Note:*

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

## 7. LOSS BEFORE TAXATION

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

*Note:*

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

## 8. INCOME TAX EXPENSE (CREDIT)

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax | **–** | – |
| Deferred tax | | |
| Charge (credit) for current year | **7,385** | (7,385) |
| | **7,385** | (7,385) |

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

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

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

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

## 9. LOSS PER SHARE

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

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

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

*Note:*

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

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

## 10. TRADE RECEIVABLES

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **29** | 5,389 |

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

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$29,000 (2012: HK$30,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

## 11. TRADE PAYABLES

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

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

## 12. CONVERTIBLE NOTES

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

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

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

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

Analysed for reporting purposes as:

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

*Note:*

The amount in current year represents coupon interest payable and the carrying value of 3.5% convertible note issued to Golden Infinity with principal amount of HK$300 million, 3.5% unsecured convertible note issued to Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited with principal amount of HK$466.8 million and 5% GI & CTF Convertible Notes to the convertible note holders within one year. The amount in 2012 represented coupon interest and the principal payable to the convertible note holders within one year.

### 13. CONTINGENT LIABILITIES

During the year, the Company and MoEnCo LLC ("**MoEnCo**"), an indirectly wholly owned subsidiary, disputed the scopes of service provided by the former sole mining contractor and disagreed on the amount charged and the quality of services provided under the former mining contract and accordingly, refused to settle the contractor fees as claimed by former sole mining contractor.

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

## EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

The Company's independent auditor's report for the year ended 31 March 2013 has been modified but without qualification, an extract of which is as follows:

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2013, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Emphasis of Matters**

Without qualifying our opinion, we draw attention to Notes 3* and 5 to the consolidated financial statements. The Group's commercial coal production of Khushuut Coal Mine in Western Mongolia have been halted due to the dispute with the former sole mining contractor and the relevant mining services agreement had been terminated. The resumption of production will depend on the selection of a new suitable coal extraction contractor to perform the coal extraction work. The Group is currently in the final rounds of negotiation with a potential coal extraction contractor for the provision of coal extraction work and the process is at an advanced stage. The negotiation has not been completed up to the date of this report. Included in the consolidated statement of financial position as at 31 March 2013 are property, plant and equipment, intangible assets and development in progress with an aggregate carrying value of approximately HK$7,780 million in relation to the Khushuut Coal Mine operation (collectively referred to as "**Khushuut Related Assets**"). For the purpose of assessing impairment of the Khushuut Related Assets, the Directors engaged an independent valuer to assess the recoverable amount based on a value in use calculation at the end of the reporting date, using discounted cash flow analysis. As the negotiation with the potential coal extraction contractor is at an advanced stage, the Directors instructed the independent valuer to use the information and assumptions provided by the potential coal extraction contractor, including the cost structure and production capacity of the Khushuut Related Assets. The recoverable amount of the Khushuut Related Assets estimated by the valuer was significantly lower than their carrying value, and accordingly, an impairment loss amounting to approximately HK$3,135 million was recognised in the consolidated income statement. Once the Group has finalised the appointment of the new coal extraction contractor, the key assumptions adopted in the value in use calculation such as the timing of recommencement of commercial coal production, cost structure and production capacity may be significantly different and this may have a significant effect on the recoverable amount of the Khushuut Related Assets.

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

Further, we draw attention to Note 1[#] to the consolidated financial statements which indicates that as at 31 March 2013, the Group's current liabilities exceeded its current assets by approximately HK$1,376.5 million. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from the substantial shareholder and chairman of the Company. If the finance is not available, the Group would be unable to meet its financial obligations as and when they fall due. This condition indicates the existence of a material uncertainly which may cast significant doubt about the Group's ability to continue as a going concern.

# Being Note 1 in this announcement
* Being Note 3 in this announcement

## FINAL DIVIDEND

The Directors do not recommend payment of a final dividend for the year ended 31 March 2013 (2012: Nil).

## ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on 30 August 2013 and the notice of the 2013 AGM will be published and despatched in the manner as required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in due course.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

Our principal project is the Khushuut Coking Coal Project in Western Mongolia. The Khushuut Coal Mine is about 311 km from the Xinjiang Takeshenken border, connecting by the Khushuut Road built by us.

During the financial year ended 31 March 2013 (the "**Financial Year**"), our commercial coal production of the Group came to a halt as a result of the retreat of Leighton and handover of the management of the Khushuut Coal Mine to us in October 2012, as well as the coal screening and quality issues.

## RESULTS ANALYSIS

### Revenue

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

### Cost of Sales

The cost of sales was HK$261.9 million (2012: HK$100.6 million). The cost of sales was exceptionally high due to the mining activities during the Financial Year failed to produce raw coal at optimum capacity. A total of HK$90.3 million contractor fee was paid/payable to the sole mining contractor despite the unsatisfactory production progress. The Group disputed the amount charged and the services provided by this mining contractor and refused to settle the contractor fee. For details, please refer to note 13 to the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

**Fair Value Gain on Derivative Component of Convertible Notes**

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

**Finance Costs**

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

## BUSINESS REVIEW

### Khushuut Coking Coal Project

*Khushuut Coal Resources*

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

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

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

(a) Open-pit mining method;

(b) Maximum mining depth of 400 meters;

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

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

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

*Operation*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Mine Infrastructure and Equipment**

*The Dry Processing Plant Project*

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

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

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

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

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

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

*Xinjiang Washing Plant Project*

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

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

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

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

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

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

*Customers and Sales*

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

*Khushuut Licences*

As disclosed in our previous reporting, we have several mining and exploration licences which might be affected by the Law of Mongolia on the Prohibition of Minerals Exploration and Mining in Headwater Areas, Protected Zones for Water Reserves and Forest Lands (the "**MPL**"). Our mining operation in the Khushuut Coal Mine and exploration activities under our concessions were conducted as usual and had not been affected by the MPL during the Financial Year.

We have instructed our Mongolian legal advisers to conduct enquiry with The Mineral Resources Authority of Mongolia (the "**MRAM**") regarding the validity of our licences. We were informed that all our mining and exploration licences are valid and in effect. However, we were informed that some of our licences have been overlapping with the watershed and forestry areas under the MPL as defined by its Resolution 194.

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

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

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

*Selection of Coal Extraction Contractor*

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

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

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

*Support from the Local Governments for Our Project*

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

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

*Village Relocation Project*

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

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

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

**Exploration Activities**

*Licences*

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

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

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

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

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

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

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

**Legal and Political Aspects**

*Mining Prohibition Law*

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

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

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

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

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

The MPL may potentially revoke those licence areas which are currently set out as water basins, water basin protection zones and forested areas. Our Mongolian legal advisers advised us that some of our licences have been overlapping with the forest and head water areas, please refer to our licence list in the coming annual report.

*Strategic Deposits*

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

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

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

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

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

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

*Dispute with Leighton*

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

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

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

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

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

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

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

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

**Others**

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

## FINANCIAL REVIEW

### 1. Liquidity and Financial Resources

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

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

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

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

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

**2. Investment in Listed Securities**

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

**3. Charge on Group's Assets**

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

**4. Gearing Ratio**

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

5. **Foreign Exchange**

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

6. **Contingent Liabilities**

The details of the Group's contingent liabilities as at 31 March 2013 are disclosed in note 13 to the consolidated financial statements.

## OUTLOOK

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

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

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

## HUMAN RESOURCES

As at 31 March 2013, excluding site and construction workers directly employed by our contractors, the Group employed 301 full time employees in Hong Kong, Mongolia, and Mainland China. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on a periodic basis. Apart from retirement scheme, year-end bonus and share options are awarded to the employees according to performance of the Group, assessment of individual performance, and industry practice. Appropriate training programs are also offered for staff training and development.

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

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

## CORPORATE GOVERNANCE

The board of Directors (the "**Board**") recognises the importance of maintaining a high standard of corporate governance to protect and enhance the benefits of the shareholders. The Board and the management of the Company have joint responsibilities to maintain the interest of the shareholders and the sustainable development of the Group. The Board also believes that a good corporate governance practice can facilitate rapid growth of a company under a healthy governance structure and to strengthen the confidence of the shareholders and investors.

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

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

   None of the existing Non-executive Directors is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the CG Code. However, they are subject to retirement by rotation under the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practice in this respect is no less exacting than those of the CG Code.

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

    The Chairman did not attend the 2012 AGM due to another business engagement. An Executive Director chaired the 2012 AGM and answered questions from the shareholders. The AGM provides a channel for communication between the Board and the shareholders. A member of the Audit and Remuneration Committee of the Company was also available to answer questions at the 2012 AGM. Other than the AGM, the shareholders may communicate with the Company through the contact information listed on the Company's website.

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

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

## COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own Model Code for Securities Transactions by Directors (the "**Code**"), which is on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "**Model Code**"). The Code is sent to each Director on his/her initial appointment and from time to time when the same is amended or restated.

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

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

During the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to and including the publication date of the annual results, all Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published.

In the period of 30 days immediately preceding and including the publication of the half year results or, if shorter, the period from the end of the relevant quarterly or half year period up to and including the publication date of the results, all Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published.

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

It is stipulated under the Code and/or the Employees' Guidelines that all dealings of the Company's securities must be conducted in accordance with the provisions stated therein. Under the Code, the Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company, and in the case of the Chairman himself, he must notify the designated Director and receive a dated written acknowledgement before any dealing.

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

## AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has three members, all of whom are independent non-executive Directors. Mr. Lau Wai Piu is appointed as the chairman of the Audit Committee. He has appropriate professional qualifications, accounting and related financial management expertise.

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

The Audit Committee has reviewed the consolidated financial statements for the year ended 31 March 2013 of the Group.

## PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mongolia-energy.com). The annual report of the Company for the year ended 31 March 2013 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites in due course.

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

Hong Kong, 28 June 2013

*As at the date of this announcement, the Board comprises seven Directors, of which Mr. Lo Lin Shing, Simon, Ms. Yvette Ong and Mr. Liu Zhuo Wei 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.*