**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

This circular is for information purposes only and does not constitute an offer or invitation to subscribe for or purchase any securities, nor is it intended to invite any such offer or invitation.

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

**If you have sold or transferred** all your shares in Mongolia Energy Corporation Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



MEC

# MONGOLIA ENERGY CORPORATION LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 276)

# MAJOR ACQUISITION & CONNECTED TRANSACTION

# MEC INITIAL ACQUISITION IN XINJIANG, PRC RELATING TO COPPER, TIN & MULTI-METALS RESOURCES WITH EXPLORED TUNGSTEN AND TIN RESOURCES

# UNWINDING OF JOINT VENTURE

**Independent Financial Adviser to the Independent Board Committee and Independent Shareholders**

YU MING INVESTMENT MANAGEMENT LIMITED
禹 銘 投 資 管 理 有 限 公 司

A letter from the Board is set out on pages 6 to 22 of this circular.

A letter from the Independent Board Committee is set out on pages 23 to 24 of this circular.

A letter from the Independent Financial Adviser is set out on pages 25 to 33 of this circular.

A notice convening a special general meeting of the Company to be held at McKinley Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on November 25, 2008, at 2:30 p.m. is set out on pages 140 to 141 of this circular. If you are not able to attend and/or vote at the meeting, you are strongly urged to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it 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 later 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 at the meeting or any adjournment thereof should you so wish.

October 31, 2008

# CONTENTS

# DEFINITIONS

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

| | |
|---|---|
| "Acquisition Agreement" | means the acquisition agreement entered into by MEC and Mr. Liu on March 5, 2008 relating to the acquisition by MEC of the Relevant Interest and other transactions therein as supplemented by the Supplemental Agreement. |
| "Agreement" | means the agreement entered into by MEC, the Concession Owner and Xinjiang Kaiyue on March 5, 2008, relating to the situation where Xinjiang Kaiyue is approved to develop or invest into the Resources pursuant to the Investment Agreement. As up to the date hereof, Xinjiang Kaiyue has approval for copper and coal and iron, this Agreement no longer has effect. |
| "Board" | means the board of Directors of the Company. |
| "Closing" | means completion of the Transaction upon satisfaction of the Conditions Precedent prior to December 31, 2008. |
| "Company" or "MEC" | means Mongolia Energy Corporation Limited, a company incorporated under the laws of Bermuda and whose shares are listed on the Stock Exchange. |
| "Concession Area" | means the 13.54 sq. km. of exploration concession area located in Ruoqiang County, Ba Yin Guo Leng Mongolia Autonomous State, Xinjiang, PRC (新疆維吾爾自治區巴音郭楞蒙古自治州若羌縣). |
| "Concession Owner" | means 新疆欣業礦產開發有限公司 (Xinjiang Yinye Mineral Products Development Company Limited), a company incorporated under the laws of the PRC and an Independent Third Party. |
| "Conditions Precedent" | means the conditions precedent under the Acquisition Agreement for Closing of the acquisition of the Relevant Interest prior to December 31, 2008. |
| "Consideration" | means the aggregate consideration in the sum of approximately HK$1 billion for acquiring the Relevant Interest under the Acquisition Agreement as supplemented by the Supplemental Agreement. |
| "Directors" | means directors of the Company. |
| "Enlarged Group" | means the Group enlarged by the Transaction. |

| | |
|---|---|
| "Exploration Company" | means 吉林省地質調查院 (Jinlin Institute of Geological Survey). |
| "Exploration Licence" | means the exploration licence over the Concession Area with exploration licence number 6500000724076 with an exploration period of between August 14, 2007 to August 14, 2008. |
| "Explored Resources" | means 235,600 tons of tungsten trioxide ($WO_3$) resources and 49,400 tons of tin (Sn) resources demonstrated by the Exploration Company under the Concession Area. |
| "Group" | means the Company and its subsidiaries. |
| "Group Members" | means any or all of the members of the Group. |
| "HK$" | means Hong Kong dollars, the lawful currency of Hong Kong. |
| "Hong Kong" | means Hong Kong Special Administrative Region of the PRC. |
| "Independent Board Committee" | means the committee of Directors formed to advise Independent Shareholders in respect of the terms of the Transaction. |
| "Independent Financial Adviser" | means Yu Ming Investment Management Limited, a licensed corporation registered under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management), the independent financial adviser to the Independent Board Committee and the Independent Shareholders. |
| "Independent Shareholders" | means Shareholders of MEC other than Mr. Liu and his associates and those who are required to abstain from voting in the SGM under the Listing Rules. |
| "Independent Third Party(ies)" | means independent third party(ies) who, to the best of the Directors' knowledge and information and having made all reasonable enquiries, is/are not connected person(s) (as defined under the Listing Rules) of MEC. |
| "Independent Valuer" | means Greater China Appraisal Limited. |
| "Investment Agreement" | means the investment agreement entered into between the Concession Owner, Mr. Liu and Xinjiang Kaiyue on March 3, 2008, relating to the investment by Mr. Liu in the Relevant Interest. |

| | |
|---|---|
| "Joint Venture" | means Upper Easy Enterprises Limited, a company incorporated under the laws of British Virgin Islands owned by MEC as to 20% and Mount Billion Group Limited as to 80% established for the purpose of potential acquisition of energy and related projects in Xinjiang, PRC, which is to be unwound by the parties in accordance with the Acquisition Agreement. |
| "Latest Practicable Date" | means October 27, 2008 being the latest practicable date for ascertaining certain information in this circular. |
| "Listing Committee" | means the listing sub-committee of the board of directors of the Stock Exchange. |
| "Listing Rules" | means the Rules Governing the Listing of Securities on the Stock Exchange as amended, supplemented and/or replaced. |
| "Mongolia" | means the independent nation of Mongolia. |
| "Mr. Liu" | means Mr. Liu Cheng Lin, a substantial shareholder of MEC. |
| "Party" or "Parties" | means, as the context requires, any or all of the Parties under the Relevant Agreements. |
| "Percentage" and "%" | means percent. |
| "PRC" | means the People's Republic of China. |
| "Project" | means the acquisition of the Relevant Interest including the Explored Resources and the development and commercial exploitation thereof. |
| "Relevant Agreements" | means, as the context requires, any or all of the Investment Agreement and the Acquisition Agreement relating to the Transaction. |
| "Relevant Interest" | means the benefits in the Relevant Percentage of the Resources. |
| "Relevant Percentage" | means 20%. |
| "Resources" | means copper, tin and multi-metals, including the Explored Resources. |
| "RMB" | means Renminbi, the lawful currency of the PRC. |

| | |
|---|---|
| "Service Fee" | means the sum of HK$200 million to be paid by MEC to Mr. Liu and Mr. Liu has directed that the Service Fee under the Acquisition Agreement shall be satisfied by the deemed refund to MEC of the HK$200 million paid to Mr. Liu's nominee, as referred under the announcement of August 31, 2007. |
| "SFO" | means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong. |
| "SGM" | means the special general meeting of Company to be convened to consider and, if thought fit, approve, among other things, the Transaction including the issue of new Shares as part of the Consideration under the Relevant Agreements. |
| "Shareholders" | means holders of the Shares. |
| "Shares" | means ordinary shares of HK$0.02 each in the share capital of the Company. |
| "Stock Exchange" | means The Stock Exchange of Hong Kong Limited. |
| "Supplemental Agreement" | means the supplemental agreement to the Acquisition Agreement between Mr. Liu and MEC to allow a reduction in the Consideration and an extension of the Closing as set out in this circular. |
| "Technical Adviser" | means John T. Boyd Company, a company with the appropriate qualification to prepare the technical report of the circular. |
| "Technical Report" | means the technical report prepared by the Technical Adviser and set out in Appendix IV of this circular. |
| "Transaction" | means the acquisition of the Relevant Interest. |
| "Xinjiang Kaiyue" | means Xinjiang Kaiyue Yuan Mineral Company Limited (新疆凱禹源礦業有限公司), a wholly foreign owned enterprise incorporated under the laws of PRC and beneficially owned by Mr. Liu. |

* *For the purpose of this circular and for illustration purpose only, the amounts in US$ have been converted to HK$ at HK$/US$ exchange rate of 7.78/1.0000 and the amounts in RMB have been converted to HK$ at HK$/RMB exchange rate of 1.14/1.0000.*

# EXPECTED TIMETABLE OF THE TRANSACTION

*Set out below is an indicative timetable for the Transaction. The timetable is subject to change due to various factors, such as fulfillment of the Conditions Precedent, regulatory approvals and commercial decisions. The Company will notify the Shareholders of any material change to the expected timetable as and when appropriate.*

| | |
|---|---|
| March 5, 2008 | Signing of the Acquisition Agreement and Agreement |
| October 27, 2008 | Signing of the Supplemental Agreement |
| October 31, 2008 | Despatch of this circular setting out further details of the Transaction |
| November 25, 2008 | SGM |
| On or December 31, 2008 | Closing of the Transaction |

# 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:*
Rooms 1502-5
New World Tower 1
16-18 Queen's Road Central
Hong Kong

October 31, 2008

*To the Shareholders*

Dear Sir or Madam,

## MAJOR ACQUISITION & CONNECTED TRANSACTION

## MEC INITIAL ACQUISITION IN XINJIANG, PRC RELATING TO COPPER, TIN & MULTI-METALS RESOURCES WITH EXPLORED TUNGSTEN AND TIN RESOURCES

## UNWINDING OF JOINT VENTURE

### INTRODUCTION

The Board is pleased to announce that through the Relevant Agreements which MEC entered on March 5, 2008 and detailed below, MEC has entered into its initial acquisition in Xinjiang, PRC relating to copper, tin and multi-metals resources under 13.54 sq. km. of exploration concession area located in Ruoqiang County, Xinjiang Province, PRC, initially for 20% of the benefits of the Resources under the Relevant Agreements, and subject to further agreement for up to the balance 80% of the benefits of such Resources.

## THE TRANSACTION AGREEMENT

### A. THE RELEVANT AGREEMENTS (THE INVESTMENT AGREEMENT, THE AGREEMENT AND THE ACQUISITION AGREEMENT)

#### A.1 INVESTMENT AGREEMENT

**1. The Date**

March 3, 2008

**2. The Parties**

(a) **新疆欣業礦產開發有限公司 (XINJIANG YINYE MINERAL PRODUCTS DEVELOPMENT COMPANY LIMITED)**, a company incorporated under the laws of the People's Republic of China, an Independent Third Party;

(b) **MR. LIU CHENG LIN**; and

(c) **新疆凱禹源礦業有限公司 (XINJIANG KAIYUE YUAN MINERAL COMPANY LIMITED)**, a wholly foreign owned enterprise incorporated under the laws of the People's Republic of China.

**3. Background for entering into the Investment Agreement**

The parties entered the Investment Agreement for the purpose of a transaction relating the Resources under 13.54 sq. km. of the Concession Area located in Ruoqiang County, Xinjiang Province, PRC under the exploration licence number 6500000724076 with an exploration period of between August 14, 2007 to August 14, 2008. 吉林省地質調查院 (Jinlin Institute of Geological Survey) is the exploration company conducting the exploration work. The exploration licence has since expired and the Conditions Precedent under the Acquisition Agreement referred below requires the mining licence to be in place on or before December 31, 2008.

**4. The details of the Investment Agreement**

Under the Investment Agreement, Mr. Liu agrees to pay RMB100 million to the Concession Owner as investment into the Resources and 100 million shares of MEC to the natural person nominee of the Concession Owner. The sum of RMB100 million is to be applied by the Concession Owner for development and commercial exploitation of the Resources, in particular, commercial exploitation design, extracting mineral products, refinery, sales and other usual and ordinary expenses that will be incurred in commercial exploitation for non-ferrous metals resources.

If Mr. Liu is able to obtain PRC approval for Xinjiang Kaiyue to engage in any non-ferrous metals concession development or investment prior to September 1, 2008, all investment by Mr. Liu as well as the benefits deriving from commercial production will be dealt with in accordance with the Agreement (referred under A.2 below) between the Concession Owner, Xinjiang Kaiyue and MEC. If not, Mr. Liu shall retain the benefits relating to the Relevant Interest. As up to the date hereof, Xinjiang Kaiyue has approval for copper, coal and iron only, this Agreement no longer has effect.

**5. The Consideration**

The Investment Agreement is subject to the payment of sum of RMB100 million by Mr. Liu to the Concession Owner as investment into the Resources and 100 million shares of MEC to the natural person nominee of the Concession Owner. MEC has been informed by Mr. Liu that he has made the payment of RMB100 million and 100 million shares of MEC to the Concession Owner in accordance with Investment Agreement prior to the date of this circular.

To MEC's best knowledge and belief, the Concession Owner and the natural person nominee of the Concession Owner are Independent Third Party to MEC.

**6. The Commercial Basis**

The commercial basis for the consideration under the Investment Agreement, amongst private companies and individuals, was arrived at after commercial negotiations between the parties.

**7. Conditions Precedent**

The conditions precedent for the transaction is payment of the consideration (referred in A.1.5 above). It has been fulfilled as set out in A.1.5 above.

**A.2 AGREEMENT**

Note: As noted, up to the date hereof, Xinjiang Kaiyue has approval for copper, coal and iron only, this Agreement no longer has effect. It is mentioned for completeness purpose.

**1. The Date**

March 5, 2008 (by MEC)

**2. The Parties**

(a) **MONGOLIA ENERGY CORPORATION LIMITED**, a company incorporated under the laws of Bermuda, and whose shares are listed on The Stock Exchange of Hong Kong Limited;

(b) 新疆欣業礦產開發有限公司 (**XINJIANG YINYE MINERAL PRODUCTS DEVELOPMENT COMPANY LIMITED**), a company incorporated under the laws of the People's Republic of China, an Independent Third Party; and

(c) 新疆凱禹源礦業有限公司 (**XINJIANG KAIYUE YUAN MINERAL COMPANY LIMITED**), a wholly foreign owned enterprise incorporated under the laws of the People's Republic of China.

**3. Background for entering into the Agreement**

The parties entered the Agreement for the purpose of implementing the Investment Agreement (in A.1 above) where Xinjiang Kaiyue is able to obtain PRC approval to engage in any non-ferrous metal concession development or investment prior to September 1, 2008 relating to the Resources.

**4. The details of the Agreement**

Under the Agreement, subject to the PRC approval, the benefits of Mr. Liu arising from payment of the consideration under the Investment Agreement, namely relating to the Relevant Interest is to be transferred to Xinjiang Kaiyue for MEC's benefit. This is subject to adoption of all corresponding obligations of Mr. Liu under the Investment Agreement.

In case the Relevant Interest is transferred to Xinjiang Kaiyue for MEC's benefit, MEC and the Concession Owner may jointly agree and nominate a relevant authority to appraise the value of the whole of the Resources including to take into account the tax, costs, expenses and sums paid under the Investment Agreement for the purpose of agreeing a further transaction based on cash or shares of MEC or other forms of consideration. This in effect, allows MEC the opportunity to acquire up to the balance of the 80% of the Resources. However, this is subject to further agreements.

The Agreement also refers to the explored Resources under the Exploration Licence at 235,600 tons of tungsten trioxide ($WO_3$) resources and 49,400 tons of tin (Sn) resources. As noted under the Investment Agreement, 吉林省地質調查院 (Jinlin Institute of Geological Survey) is the exploration company conducting the exploration work.

Aside from the Project, MEC is provided the priority right, subject to further agreement, to invest into the exploration and development of further resources owned by the Concession Owner. In fact, MEC is aware that the Concession Owner owns another 32.18 sq. km. of concession areas in the vicinity of the Concession Area. This priority right amongst the parties is in general terms and depends on the good faith of the parties to implement.

**5. The Consideration**

The Agreement is supplemental to the Investment Agreement. There is no separate consideration for the entry into the Agreement.

**6. The Commercial Basis**

The Agreement is supplemental to the Investment Agreement. There is no separate commercial basis for the entry into the Agreement.

**7. Conditions Precedent**

The Agreement is supplemental to the Investment Agreement. MEC in relation to the acceptance of the Agreement has stipulated that the initial acquisition of the Relevant Interest is conditional, upon (1) compliance with the applicable rules and regulations under the Listing Rules (2) such other reasonable authorizations, approvals, opinions, reports and permits required by MEC and (3) the mining licence over the Concession Area having been obtained.

**A.3 ACQUISITION AGREEMENT**

**1. The Date**

March 5, 2008

**2. The Parties**

(a) **MONGOLIA ENERGY CORPORATION LIMITED**, a company incorporated under the laws of Bermuda, and whose shares are listed on The Stock Exchange of Hong Kong Limited; and

(b) **MR. LIU CHENG LIN**

**3. Background for entering into the Acquisition Agreement**

The Acquisition Agreement is to set out the initial acquisition by MEC in Xinjiang, PRC relating to the Resources under 13.54 sq. km. of the Concession Area located in Ruoqiang County, Xinjiang Province, PRC, initially for the Relevant Interest, and subject to further agreement for up to the balance 80% of the benefits of such Resources.

Aside from the Resources under the Concession Area, under the Acquisition Agreement, MEC is provided the priority right, subject to further agreement, to invest into the exploration and development of further resources owned by the Concession Owner of the Concession Area consistent with the Agreement (A.2 above). In fact, MEC is aware that the Concession Owner owns another 32.18 sq. km. of concession areas in the vicinity of the Concession Area. This priority right amongst the parties is in general terms and depends on the good faith of the parties to implement.

**4. The details of the Acquisition Agreement**

Under the Acquisition Agreement, in consideration of the Consideration, Mr. Liu agrees to hold the monetary benefits of the investment under the Investment Agreement upon receipt by Mr. Liu as nominee for MEC as from Closing which will be taken place prior to December 31, 2008 (under the Supplemental Agreement). By monetary benefits, the reference is to moneys distributed by the Concession Owner, under the Relevant Interest, to Mr. Liu. For the avoidance of doubt, there are no voting rights associated with the Relevant Interest. To the extent that Mr. Liu has any residual monetary benefits under the investment not provided to MEC as nominee for MEC, the same shall be held on trust to convey to MEC. MEC does not acquire any title to the Concession Area. These are the essence of Closing of the Transaction.

**5. The Consideration**

Subject to the satisfaction of the Conditions Precedent the Consideration (under the Supplemental Agreement) payable by MEC for the initial acquisition of the Relevant Interest under the Transaction is approximately HK$1 billion. The Consideration is payable as follows:

(1) HK$200 million to Mr. Liu for the Service Fee;

(2) reimbursement of RMB100 million (HK$114 million)* paid by Mr. Liu under the Relevant Agreements to the Concession Owner for the purpose of development and commercial exploitation of the Resources (initially, the Explored Resources); and

(3) payment of the balance of HK$686 million by Shares of MEC to be alloted at a closing price as at Closing, subject to a maximum cap of 100 million Shares paid by Mr. Liu to the Concession Owner under the Investment Agreement.

MEC will make an application to the Listing Committee for the listing of and permission to deal with the new Shares to be issued as part of the Consideration.

The maximum 100 million new Shares to be issued as part of the Consideration represent approximately 1.65% of the existing issued share capital of MEC and approximately 1.62% of the enlarged issued share capital of MEC. The new Shares to be issued as part of the Consideration will be free from all encumbrances and shall rank pari passu in all respects with the other Shares in issue or to be issued by MEC at such time.

Assuming a maximum of 100 million new Shares will be issued at the close of business of the Latest Practicable Date, the market value of the new Shares is HK$110 million.

In relation to the Service Fee, Mr. Liu has directed that the Service Fee shall be satisfied by the deemed refund to MEC of the HK$200 million paid to Mr. Liu's nominee as referred under the Announcement of August 31, 2007.

The considerations for the acquisition of up to the balance 80% of the Resources and any further resources under MEC's priority rights under any other concession areas of the Concession Owner are to be agreed. MEC will comply with the relevant Listing Rules requirements, if any further acquisition materializes.

**6. The Commercial Basis**

The commercial basis for the Consideration (including the Service Fee) was arrived at after commercial negotiations between the Parties. MEC approached the commercial negotiations based on the prevailing market price of the Relevant Percentage of the Explored Resources and the opportunity of there being further Resources and the possibility of a wider co-operation with the Concession Owner. In addition, the scarcity of the resources, as reflected by the price of the Resources was also considered. The Board (excluding independent non-executive directors who will be advised by the Independent Financial Adviser) believes that the Consideration is fair and reasonable for these reasons. The Independent Board Committee has given its recommendation, after taking into account the advice of the Independent Financial Adviser contained in its letter to the Independent Shareholders in this circular to the Shareholders on the Transaction.

The issue price of the new Shares was arrived at after arm's length negotiations between MEC and Mr. Liu.

As noted, on October 27, 2008, MEC entered into the Supplemental Agreement with Mr. Liu to (i) extend the Closing of the Acquisition Agreement from prior to September 1, 2008 to December 31, 2008 to give time to MEC to comply with the requirements of the Listing Rules including the issue of this circular; and (ii) to revise the Consideration downward slightly from HK$1.108 billion to HK$1 billion. That is, the service fee of HK$200 million and reimbursement of the RMB100 million (now approximately HK$114 million) to Mr. Liu under the Acquisition Agreement remain unchanged and the balance amount of HK$686,000,000 is to be satisfied by the issue of new Shares by MEC following Closing and the issue price shall be the closing price of the Shares as at the date of Closing. The parties, however, further agreed that the new Shares to be issued by MEC is subject to a maximum of 100 million Shares. Apart from and the inclusion of the above, and a further undertaking by Mr. Liu to be liable for any non-receipt of payment by MEC which MEC otherwise should have received, other terms of the Acquisition Agreement remain unchanged.

Under the combined effect of the Acquisition Agreement and the Supplemental Agreement, for a Closing to take place, a mining licence, instead of the exploration licence should be secured by the scheduled completion date of December 31, 2008 unless extended with agreement of both parties.

The slight adjustment of the Consideration payable by MEC would have the benefit to MEC in reducing overall purchase price and possibly the amount of the new Shares to be issued in case of an increase in the share price of MEC whilst, without the Supplemental Agreement, this can potentially exceed HK$1.108 billion as stated under the Acquisition Agreement. This is the main reason for MEC to enter the Supplemental Agreement.

### 7. Conditions Precedent

The initial acquisition of the Relevant Interest under the Transaction is conditional, upon (1) compliance with the applicable rules and regulations under the Listing Rules and (2) such other reasonable authorizations, approvals, opinions, reports and permits required by MEC and (3) the mining licence over the Concession Area having been obtained.

It is expected that the Concession Owner shall arrange for obtaining the mining licence, which may be subject to the payment of resources fees normally amortized over the operations of the mine. The mining licence will allow the Concession Owner to commence commercial exploitation which is otherwise not permissible where there is only an exploration licence.

For the avoidance of doubt, in case MEC does not proceed ahead with the acquisition of the Relevant Interest, Mr. Liu will personally acquire the Relevant Interest without further reference to MEC.

Conditions Precedent (1) and (3) are still outstanding. MEC expects that the mining licence to be the main Conditions Precedent for the initial acquisition of the Relevant Interest under the Transaction which should be secured by the scheduled completion date of December 31, 2008 unless extended with agreement of both parties.

### 8. Unwinding of Joint Venture

Mr. Liu has directed that the Service Fee under the Acquisition Agreement, shall be satisfied by the deemed refund to MEC of the HK$200 million paid to Mr. Liu's nominee, as referred under the announcement of August 31, 2007. MEC and Mr. Liu further agree that the Joint Venture and transactions referred therein are upon the deemed refund be unwound *ab initio*. MEC agrees to waive any interest payment required with the deemed refund. Please refer to the announcement of August 31, 2007 for further details.

For the avoidance of doubt, MEC and Mr. Liu will continue co-operation for the purpose of acquisition of further energy and related resources projects, as and when the same arise, however, MEC and Mr. Liu believed it appropriate to unwind the Joint Venture to retain a degree of flexibility on the investment vehicle to adopt for any further transaction.

The topic of unwinding of the Joint Venture, in the context of the Relevant Agreements, was first discussed on March 4, 2008. The reason for waiving the interest on the amount refunded was that MEC believed that this was a better alternative than having the Consideration increased by the amount of the interest to be repaid and then being repaid the interest, which may attract tax. The amount of interest being waived of approximately HK$11.9 million (assuming Closing of the Transaction takes place on October 31, 2008), while significant, would otherwise have to be paid as Consideration for the Transaction. There is no impact on MEC by reason of the unwinding of the Joint Venture, as in fact, MEC could claw back part of the Consideration through the unwinding of the Joint Venture. The Board (excluding independent non-executive directors who will be advised by the Independent Financial Adviser) is of the view that the unwinding of the Joint Venture is fair and reasonable for these reasons. The Independent Board Committee has given its recommendation, after taking into account the advice of the Independent Financial Adviser, in its letter to the Independent Shareholders in this circular to the Shareholders on the Transaction.

**9. Covenants on development**

Under the Acquisition Agreement, Mr. Liu agrees to comply with all directions of MEC in relation to the investment into the Relevant Interest, including to procure that the mining development and commercial exploitation is in accordance with the requirements of MEC. However, this is subject to the Concession Owner agreeing to implement such directions of MEC.

The RMB100 million amount under the Consideration, to be funded by MEC from its internal resources, is intended to cover the initial development and commercial exploitation expenses of the Explored Resources. However, MEC will not itself engage in any exploration or development of natural resources under the initial acquisition of the Relevant Interest.

## A.4 THE COMBINED EFFECT OF THE DOCUMENTS

Under the Relevant Agreements, the combined effects are that Mr. Liu, shall firstly acquire the Relevant Interest for RMB100 million and 100 million Shares of MEC.

When MEC, upon Closing prior to December 31, 2008, acquires the Relevant Interest, it will reimburse Mr. Liu for the payments of RMB100 million and Shares of MEC, depending on the price per Share as at Closing, subject to a maximum of 100 million Shares and pay Mr. Liu an extra Service Fee. Mr. Liu will upon Closing hold whatever benefits received by him under the Relevant Interest as nominee for MEC, with a trust of any residual benefits not provided to MEC as nominee. These are the essence of Closing of the Transaction. As the Acquisition Agreement is governed by Hong Kong laws and all payments from Mr. Liu to MEC are to be made in Hong Kong, MEC's PRC legal advice is that there is no PRC law issues.

If MEC does not proceed to Closing, Mr. Liu will own the Relevant Interest himself.

The Investment Agreement is not inter-conditional upon the Acquisition Agreement. This means that Mr. Liu acquires the Relevant Interest even where MEC does not proceed to Closing of the initial acquisition of the Relevant Interest under the Transaction.

Mr. Liu provided MEC on March 4, 2008 the signed Investment Agreement and the Agreement and offered the opportunity to MEC to enter into the Transaction. Mr. Liu noted that he discussed the possibility of a direct transaction with the Concession Owner but was limited by the Concession Owner's desire to retain title and to deal directly with him. MEC with the background of the business relationship with Mr. Liu as disclosed in prior announcements, was comfortable in having a contractual arrangement with Mr. Liu in relation to the acquisition of the Relevant Interest. Further, MEC is a debtor to Mr. Liu under the initial acquisition of concession areas in western Mongolia under the loan note in the original amount of HK$787,500,000 referred under MEC's circular of March 22, 2007, and there is an avenue for set-off of any default sums by Mr. Liu, in the event of a default, however unlikely. Please refer to pages 16 to 17 of the MEC's circular of March 22, 2007 for further details. As at the Latest Practicable Date, the principal amount outstanding under the loan note is HK$283.5 million.

The Consideration brings along with it the conditional opportunity, subject to terms and agreement, to acquire the rest of the 80% benefits and the priority rights for the nearby 32.18 sq. km. of Concession Area, along with the services of Mr. Liu as nominee of MEC on the Relevant Interest and taking MEC's instructions thereon from time to time, which are reasonable incidental matters to the holding of the Relevant Interest by Mr. Liu as nominee for MEC.

## B. COMMERCIAL EXPLOITATION TO BE CARRIED OUT UNDER THE PROJECT

The preliminary exploration work in 2007 over the Concession Area has demonstrated the Explored Resources.

The prevailing market value of the Explored Resources is approximately HK$33 billion. The Exploration Company will continue exploration for further resources within the Concession Area. Thus, the Relevant Interest over the Explored Resources is HK$6.6 billion, which may increase with further resources being demonstrated under further exploration. For fair value of the Explored Resources, please refer to the valuation report contained in this circular. These are subject to recovery under commercial exploitation, including extraction (inclusive of relating processing) in the appropriate manner in due course. It is contemplated that the Concession Owner shall appoint, at the relevant stage, the relevant professionals to assist in commercial exploitation, as there is a need to extract the relevant metals from the mined ore bodies to reflect their market values, as the mined ore bodies in themselves will otherwise be only a relatively small indeterminate amount of the metals market values. It is at this stage premature for there to be a timetable as to commercial exploitation, which requires further analytical work by the Exploration Company and working with the other relevant mine designers and other professionals involved in the commercial exploitation process.

The technical report and the valuation report with this circular sets out the latest technical and valuation information.

MEC expects to develop the Resources for commercial exploitation on an as soon as practicable basis. The RMB100 million amount under the Consideration, to be funded by MEC from its internal resources, is intended to cover the initial development and commercial exploitation expenses for the Explored Resources.

As the market demand for the Resources, including the Explored Resources is high in the PRC, the target customers of the Project for its commercial operation will principally be PRC customers.

## C. EFFECT ON SHAREHOLDING STRUCTURE

The existing shareholding structure of MEC and the effect on the shareholding structure of MEC immediately upon issue of the new Shares as part of the Consideration are set out as below:

**Shareholding Structure**

| Shareholders | Existing shareholdings | | Immediately upon issue of the new Shares *(Note 6)* as part of the Consideration | | Upon full conversion of Convertible Bond *(Note 7)* and issue of new Shares and no conversion of the Convertible Note *(Note 8)* | | Upon full conversion of Convertible Bond and issue of new Shares and full conversion of the Convertible Note | |
|---|---|---|---|---|---|---|---|---|
| | *Number of shares* | *% (approximately)* | *Number of shares* | *% (approximately)* | *Number of shares* | *% (approximately)* | *Number of shares* | *% (approximately)* |
| **Substantial Shareholders** | | | | | | | | |
| Golden and its associates *(Note 1)* | 1,200,739,301 | 19.85 | 1,200,739,301 | 19.53 | 1,200,739,301 | 18.06 | 1,200,739,301 | 17.35 |
| Puraway & Mr. Liu *(Note 2)* | 1,025,000,000 | 16.95 | 1,125,000,000 | 18.30 | 1,625,000,000 | 24.44 | 1,625,000,000 | 23.48 |
| **Directors** | | | | | | | | |
| Other directors of the Group *(Note 3)* | 7,483,200 | 0.12 | 7,483,200 | 0.12 | 7,483,200 | 0.11 | 7,483,200 | 0.11 |
| **Public Shareholders** | | | | | | | | |
| CTF *(Note 4)* | 225,000,000 | 3.72 | 225,000,000 | 3.66 | 225,000,000 | 3.38 | 498,972,602 | 7.21 |
| Dragon and its associates *(Note 5)* | 383,170,000 | 6.34 | 383,170,000 | 6.23 | 383,170,000 | 5.76 | 383,170,000 | 5.54 |
| Other public shareholders | 3,206,827,862 | 53.02 | 3,206,827,862 | 52.16 | 3,206,827,862 | 48.24 | 3,206,827,862 | 46.33 |
| Total | 6,048,220,363 | 100.00 | 6,148,220,363 | 100.00 | 6,648,220,363 | 100.00 | 6,922,192,965 | 100.00 |

*Note 1:* Among the 1,200,739,301 Shares, 4,960,000 Shares represent interest of Mr. Lo Lin Shing, Simon ("Mr. Lo") on an individual basis; while 1,194,029,301 Shares represent interest of Golden Infinity Co., Ltd ("Golden"). The balance 1,750,000 Shares represent interest of Ms. Ku Ming Mei, Rouisa ("Mrs. Lo"). Accordingly, Mr. Lo is deemed to be interested in the Shares in which Golden and Mrs. Lo are interested by virtue of the Securities and Futures Ordinance. Golden is beneficially owned by Mr. Lo.

*Note 2:* Puraway Holdings Limited ("Puraway") is a company wholly owned by Mr. Liu Cheng Lin.

*Note 3:* Other directors of the MEC Group, other than Mr. Lo and his associates.

*Note 4:* Chow Tai Fook Nominee Limited ("CTF") is a company controlled by Dato' Dr. Cheng Yu Tung and members of his family.

*Note 5:* Dragon Noble Group Limited ("Dragon") is a company controlled by Dr. Cheng Kar Shun. Among the 383,170,000 Shares, 55,100,000 Shares represent interest of Ms. Ip Mei Hing, spouse of Dr. Cheng Kar Shun.

*Note 6:* Assuming a maximum of 100,000,000 new Shares be issued to Mr. Liu following Closing.

*Note 7:* Convertible Bond with a principal sum of HK$142,500,000 with initial conversion price at HK$0.285 per share and issued to Puraway Holdings Limited as part of the consideration in the acquisition of concession areas in western Mongolia by MEC as announced on February 7, 2007.

*Note 8:* Convertible Note with a principal sum of HK$2,000,000,000 with initial conversion price at HK$7.3 per share due April 30, 2011 issued to Chow Tai Fook Nominee Limited as announced on February 1, 2008.

Upon Closing of the transaction, there will not be any change of control of MEC.

## D. THE INFORMATION ABOUT THE GROUP AND MR. LIU

### 1. Principal activities of the Group

The Group is focused on building its energy and related resources business. Throughout 2007, the Group has explored for coal resources. The Group has acquired some 66,000 hectares of exploration and mining concessions in western Mongolia for coal, ferrous and non-ferrous metal resources. During exploration work in the later half of 2007 over an area of 600 hectares out of the 66,000 hectares of concession areas, MEC demonstrated in excess of 460 million tonnes of coal resources of which 181 million tonnes comprise of premium coking coal resources. Please refer to the announcement of MEC of January 9, 2008. Further, analytical work over part of the explored area has demonstrated 149 million tonnes of JORC resources.

Up to present, the Group has also acquired an aggregate of approximately 329,008 hectares of concession areas for coal, ferrous and non-ferrous metals resources in western Mongolia and minority interests under various projects. For further information and development on the Group, please refer to information on MEC's website at www.mongolia-energy.com and recent announcements of MEC.

### 2. Principal activities of Mr. Liu

Mr. Liu is a party to the initial acquisition of the 34,000 hectares of exploration and mining concessions in western Mongolia as detailed under MEC's circulars of March 22, 2007 and June 25, 2007. Mr. Liu is also a party to the further acquisition of the 32,000 hectares of exploration concessions which MEC acquired the title on July 16, 2007. There are also various other agreements entered with Mr. Liu as set forth under various announcements of MEC.

Further, as the initial acquisition of the 34,000 hectares of exploration and mining concessions in western Mongolia has completed, Mr. Liu became a substantial shareholder of MEC and hence a connected person to MEC under the meaning of the Listing Rules.

### 3. Principal activities of the Concession Owner

The Concession Owner is an Independent Third Party, with business scope to invest into the Resources. The Concession Owner is the owner of the Exploration Licence. To the best knowledge and belief of MEC, the Concession Owner is the owner of certain exploration concessions in the vicinity of the Concession Area of an additional 32.18 sq. km. of concession areas. It is contemplated that the Concession Owner shall, as with the appointment of the Exploration Company for exploration, appoint professionals to assist it in commercial exploitation, including the relevant mine designer and mining company for commercial exploitation.

## E. REASONS FOR ACQUIRING THE INTEREST UNDER THE RESOURCES AND ADDITIONAL RESOURCES

MEC has been actively considering to expand its energy and resources sector business into Xinjiang, PRC which MEC believes has synergy to MEC's current energy and resources sector business in Mongolia. This synergy arises by reason that Xinjiang, PRC will be the leading market place for the energy and resources products of MEC and gaining a foothold for eventual expansion of the market share of MEC in Xinjiang, PRC makes commercial sense to MEC. Apart from locality expansion, the acquisition of the Relevant Interest would achieve a diversification of resources from coal to tungsten, tin and other metal resources which complements the existing business of MEC. Further, the Resources and the Explored Resources are in high demand both in Mainland China and overseas with a continuing upward trend in market price.

In terms of the Consideration, the valuation of the Explored Resources set out in this circular supports the Consideration. In addition, from MEC's perspective there are further opportunities, subject to terms and conditions, to acquire the rest of the 80% and to invest in priority in the 32.18 sq. km. of concession in the vicinity. The Independent Board Committee has given its recommendation, after taking into account the advice of, the Independent Financial Adviser in its letter to the Independent Shareholders contained in this circular to the Shareholders on the Transaction.

In relation to the Service Fee component of the Consideration, from MEC's perspective Mr. Liu has performed valuable services, in identifying the transaction and arranging for a site visit by the professional team. In fact, prior to meeting of March 4, 2008, with Mr. Liu, Mr. Liu indicated that the negotiations were not advancing and there were unlikely to be any agreement and that this project was simply to show MEC as to what potential projects there are in Xinjiang, PRC. It was not until March 4, 2008, that Mr. Liu disclosed that there was a 7-hour long meeting on March 3, 2008 wherein agreement was eventually reached with the Concession Owner and their respective legal advisers. The fact that Mr. Liu has procured the transaction with high absolute and scarce value resources is in itself sufficient to MEC as to the valuable nature of the services performed by Mr. Liu, especially in light of the difficult negotiations which took place only on March 3, 2008, as indicated by Mr. Liu, with the Investment Agreement and the Agreement setting forth the terms of the agreement eventually reached. In addition, the Service Fee includes the services of Mr. Liu as nominee of MEC on the Relevant Interest and taking MEC's instructions thereon from time to time, which are reasonable incidental matters to the holding of the Relevant Interest by Mr. Liu as nominee for MEC for which there will be no further payment.

In view of the above, the Board (excluding independent non-executive directors who will be advised by an Independent Financial Adviser) is of the opinion that the Transaction, including the Consideration (and the Service Fee thereunder) under the Acquisition Agreement is fair and reasonable and in the interest of the Group and the Shareholders as a whole. The Independent Board Committee has given its recommendation, after taking into account the advice of the Independent Financial Adviser in its letter to the Independent Shareholders contained in this circular to the Shareholder on the Transaction.

## F. RISK FACTORS

**There are several possible risk factors which may be faced by the Company including: (i) fluctuation in market price of the Resources, including the Explored Resources; (ii) significant and continuous capital investment; (iii) policies and regulations; (iv) country risk; (v) environmental protection issue; and (vi) contractual risks under the Relevant Agreements and between various parties, which are discussed below.**

### Fluctuation in market price of Resources, including the Explored Resources

**Although the market demand for the Resources, including the Explored Resources is high, they are subject to various economic factors such as international supply of and demand for these metals which would affect their prices. The fluctuations in supply and demand are caused by numerous factors beyond the Company's control, which include, but not limited to:**

**(i) Global and domestic economic conditions;**

**(ii) Political conditions and competition amongst suppliers; and**

**(iii) The rate of growth and expansion in industries with high demand for these metals.**

**There is no assurance that international and domestic demand for these metals and related products will continue to grow, or that the international and domestic demand for these metals and related products will not experience excess supply.**

### Significant and continuous capital investment

**The mining business requires significant and continuous capital investment; the commercial operation of a project may not be completed as planned, or may exceed the original budgets and may not achieve the intended economic results or commercial viability including by reason of the commercial recoverability of the resources under commercial exploitation. Actual capital expenditures for commercial operation under the project may significantly exceed the Company's budgets because of various factors beyond the Company's control, which in turn may affect the Company's financial condition and the viability of the project.**

### Policies and regulations

**The mining business is subject to extensive PRC governmental regulations, policies and controls, for example, the timely payment of resources fee and other compliance issues. There can be no assurance that the relevant PRC authorities will not change such laws and regulations or impose additional or more stringent laws or regulations or making the whole or part of project not viable. Failure to comply with the relevant laws and regulations in commercial operation of the project may adversely affect the Company and the viability of the Project.**

**Country risk**

**The Company is entering a business in the PRC. Although PRC is politically stable and its economy continues to grow after it adopts the open door policy, the Company cannot rule out the risk relating to the likelihood of changes in the business environment which will reduce the profitability of doing business in the PRC. The changes of political and economic conditions in the PRC may adversely affect the Company and the viability of the project.**

**Environmental protection policies**

**As the commercial operation of the project may be conducted under the direction of the Company, the Company may subject to the relevant PRC environmental protection laws and regulations. If the Company fails to comply with existing or future environmental laws and regulations, the Company may be required to take remedial measures, which could have a material adverse effect on the commercial operation, financial condition and results of operations and the viability of the project.**

**Contractual risks under the Relevant Agreements between various parties**

**The benefits under the Resources or part thereof are based upon the contractual relationships under the Relevant Agreements. Whilst Mr. Liu holds the benefits of the Relevant Interest as nominee for MEC and also declares the residual benefits on trust to convey for MEC, the Transaction calls for a high level of good faith and compliance by the parties of their contractual obligations and undertakings under the Relevant Agreements. If any of the contractual parties fails to or omits or refuse to honour their respective obligations and undertakings under the relevant contracts, or otherwise becomes insolvent, the Company's investment on the project will be adversely affected and the redress will be to recourse to legal or other proceedings. If the Concession Owner fails or omits to comply with the relevant PRC rules and regulations imposed in relation to the Concession, the interest of MEC under the Project may also be adversely affected along with the viability of the project.**

## G. INFORMATION ON TUNGSTEN AND TIN AND THEIR MARKET

Tungsten concentrates are used in the production of tungsten metal, tungsten carbide, tungsten alloys as well as compounds. Tungsten metal is an important material in the electrical appliance industry and electronic industry. Tungsten carbide-base in hard alloys are generally used to produce high-speed bits and high-speed cutting tools. Heat-resisting and wear-resistant alloys made from tungsten in combination with chrome, iron and cobalt can be used to produce cutting tools, materials for metal surface hardening, gas-fired steam turbines as well as combustion tubes. The utilization of tungsten is being expanded continuously, especially in the sophisticated industries, such as the rocket nozzles, jet-pipes and thermal dissociator of ion propulsion in the aerospace industry as well as containers that hold liquid metal in nuclear engineering. Influenced by the ever-increasing demands of tungsten in the domestic and overseas markets, the domestic tungsten concentrate has come in short supply since the beginning of 2003. In 2006, China is estimated to have imported 12,274 tons of tungsten ore.

Tin is easy to be processed into tubes, foils, filaments and bars and also can be made into fine powders to be used in powder metallurgy. Tin can be made into alloys with many metals, such as Babbit alloy, soldering tin, tin bronze, lead-tin bearing alloy and type-writer alloy. There are still other tin-bearing alloys, such as zirconium-based alloy which is used a packaging materials for fuel holding in the atomic energy industry, titanium-based alloy which is used in the industries like aviation, shipbuilding, atomic energy, chemical and medical apparatus; columbium-tin alloy which can be used as superconducting materials; tin-silver-mercury alloy which is used as dental materials and compounds of tin which are respectively used as enamel materials of chinaware, mordant of dying silk fabrics as well as plastic thermal stabilizer and also can be used as germicides and pesticides. In 2007, China's tin demand is estimated at 40,000 tons while the global tin demand is approximately 300,000 tons. According to the current global production and consumption tendency, the demand is expected to rise, causing a situation where supply falls short of demand.

## H. GENERAL

Based on the Consideration payable by MEC, the acquisition of the Relevant Interest under the Transaction under the Relevant Agreements constitutes a major acquisition on the part of MEC pursuant to Rule 14.06 of the Listing Rules. Furthermore, as Mr. Liu is a substantial shareholder of MEC and hence a connected person within the meaning of the Listing Rules, the Transaction under the Relevant Agreements and the unwinding of the Joint Venture (including waiving of any refund interest) constitute connected transactions on the part of MEC pursuant to Chapter 14A of the Listing Rules with (i) Mr. Liu and his associates; (ii) parties to the Relevant Agreements; and (iii) any shareholder with a material interest in the Transaction are required to abstain from voting in the SGM.

MEC will convene a SGM to seek approval of the Independent Shareholders in relation to the Transaction under the Relevant Agreements and the unwinding of the Joint Venture (including waiving of any refund interest).

The new Shares to be issued as part of the Consideration will be issued under a special mandate to be sought from the Independent Shareholders at the SGM.

An Independent Board Committee (comprising all the independent non-executive Directors) has been established to advise the Independent Shareholders in respect of the terms of the Transaction. Yu Ming Investment Management Limited has been appointed as the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Transaction under the Relevant Agreements and the unwinding of the Joint Venture (including waiving of any refund interest) are fair and reasonable and in the interests of MEC and its Shareholders as a whole.

## I. CAUTION WHEN DEALING IN THE SHARES

**The Transaction under the Relevant Agreements is subject to Conditions Precedent and relevant PRC approvals and therefore they may or may not proceed ahead, and shareholders and investors should exercise caution when dealing in the Shares of MEC.**

**Financial Effects of the Purchase**

Appendix II of this circular sets out the unaudited pro forma consolidated balance sheet of the Group immediately after completion of the Transaction. The unaudited pro forma consolidated balance sheet has been prepared to illustrate the effects of the acquisition of the Relevant Interest as if it had taken place on March 31, 2008 and to provide information on the Enlarged Group as a result of the completion of the Transaction.

Upon completion of the Transaction, the Group will recognise the dividend received from Mr. Liu, as the case may be, from the commercial operation of the Concession Area as dividend income/investment income and the Group's net assets will be increased by the fair value of the Group's interest in the Relevant Interest.

**SGM**

The SGM will be held at McKinley Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on November 25, 2008 at 2:30 p.m. to consider and, if thought fit, approve the Transaction, including the unwinding of the Joint Venture (including waiving of any refund interest) and the issue of new Shares by MEC as part of the payment of Consideration under the Acquisition Agreement. Mr. Liu and his associates will be required to abstain from voting at the SGM on the ordinary resolution approving the Transaction which will be taken on poll as required under the Listing Rules.

A notice convening the SGM is set out on pages 140-141 of this circular. If you are not able to attend and/or vote at the meeting, you are strongly urged to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it 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 later 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 at the meeting or any adjournment thereof should you so wish.

Yours faithfully,
By order of the Board
**Mongolia Energy Corporation Limited**
**Tang Chi Kei**
*Company Secretary*

MEC

# MONGOLIA ENERGY CORPORATION LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 276)

October 31, 2008

*To the Independent Shareholders*

Dear Sir and Madam

## MAJOR ACQUISITION & CONNECTED TRANSACTION

## MEC INITIAL ACQUISITION IN XINJIANG, PRC RELATING TO COPPER, TIN & MULTI-METALS RESOURCES WITH EXPLORED TUNGSTEN AND TIN RESOURCES

## UNWINDING OF JOINT VENTURE

We refer to the circular ("Circular") issued by the Company to its shareholders dated October 31, 2008 of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to consider the Company's initial acquisition in Xinjiang, PRC relating to copper, tin & multi-metals resources with explored tungsten and tin resources and unwinding of the Joint Venture and the transactions contemplated thereunder. Yu Ming Investment Management Limited has been appointed as an Independent Financial Adviser to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser set out in the letter of advice set out in the Circular, we consider that the Acquisition Agreement including the Supplemental Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition Agreement including the Supplemental Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition Agreement including the Supplemental Agreement and the unwinding of the Joint Venture and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the
**Independent Board Committee**
**Mr. Peter Pun,** *OBE, JP*
**Mr. Tsui Hing Chuen William,** *JP*
**Mr. Lau Wai Piu**
*Independent Non-Executive Directors*

*The following is the full text of a letter of advice from Yu Ming Investment Management Limited to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.*

YU MING INVESTMENT MANAGEMENT LIMITED
禹銘投資管理有限公司

31st October, 2008

*The Independent Board Committee*
*and Independent Shareholders:*

Dear Sir or Madam,

## MAJOR ACQUISITION & CONNECTED TRANSACTION

## MEC INITIAL ACQUISITION IN XINJIANG, PRC RELATING TO COPPER, TIN & MULTI-METALS RESOURCES WITH EXPLORED TUNGSTEN AND TIN RESOURCES AND UNWINDING OF JOINT VENTURE

### INTRODUCTION

We have been appointed as an independent financial adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether (i) the proposed acquisition of 20% of the benefits of the Resources (copper, tin and multi-metals) located in Xinjiang, PRC for a consideration of approximately HK$1 billion (comprising approximately cash of HK$114 million, set-off of amount due from the Joint Venture of HK$200 million and the Consideration Shares of approximately HK$686 million) and (ii) the unwinding of the Joint Venture established by MEC and Mr. Liu which had been aimed at acquiring energy and related projects in Xinjiang (reference is made to the announcement of MEC dated 31st August, 2007), are fair and reasonable and in the interests of MEC and the Independent Shareholders as a whole. The details of the transactions are set out in the Letter from the Board in the circular to the Shareholders dated 31st October, 2008 (the "Circular"), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in this Circular unless the context requires otherwise.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in this Circular and the information, opinions and representations provided to us by the Directors and the legal adviser to MEC. In addition, we discussed the valuation methodology and bases and assumptions on the valuation of the Resources with the Independent Valuer. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and all information, opinions and representations which have been provided by the Directors for which they are solely responsible are, to the best of their knowledge, true and accurate at the time they were made and continue to be so on the date of this letter.

We consider that we have reviewed sufficient information and have taken sufficient and reasonable steps as required under Rule 13.80 of the Listing Rules which enables us to reach an informed view and to provide us with a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and the representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors, nor have we conducted an independent investigation into the business and affairs of the Group or the Resources.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

### Background

On 10th March, 2008, MEC announced that MEC had entered into an agreement, supplemented by the Supplemental Agreement dated 27th October, 2008, with Mr. Liu pursuant to which MEC shall acquire from Mr. Liu the Relevant Interests for a consideration of approximately HK$1 billion (comprising approximately cash of HK$114 million, set-off of loan due from the Joint Venture of HK$200 million and the Consideration Shares of approximately HK$686 million) and, subject to further agreement, up to the remaining 80% of the benefits of the Resources. Under the Acquisition Agreement, Mr. Liu shall hold the monetary benefits of the Relevant Interest upon receipt as a nominee of MEC as from closing of the Investment Agreement prior to 1st September, 2008. To the extent that there is any residual monetary benefits with respect to the Relevant Interest not provided to MEC, the same shall be held on trust to convey to MEC. For the avoidance of doubt, MEC does not acquire any title to the Concession Area, and the Relevant Interests bear no voting rights.

Furthermore, MEC and Mr. Liu agreed to unwind the Joint Venture established pursuant to a joint venture agreement entered into on 31st August, 2007 by MEC and Mount Billion Group Limited (beneficially owned by Mr. Liu as to 100%), and MEC agreed to waive the interest of approximately HK$11.9 million (up to 31st October, 2008) accrued on its shareholder's loan of HK$200 million to the Joint Venture.

Since Mr. Liu is a substantial shareholder of MEC, the Transaction, the proposed unwinding of the Joint Venture ("Unwinding") together with waiver of the accrued interest as mentioned above ("Interest Waiver"), constitute connected transactions pursuant to Chapter 14A of the Listing Rules and requires Independent Shareholders' approval.

In forming our opinion on the Transaction, the Unwinding and the Interest Waiver, we consider the following factors relevant as far as the interests of MEC and the Independent Shareholders are concerned:

1. whether the Transaction makes business sense;

2. whether the level of premium at which the Consideration Shares will be issued is reasonable;

3. the reasonableness of the Consideration;

4. the reasonableness of other terms of the Acquisition Agreement;

5. the financial effects of the Transaction on the Group; and

6. whether the Unwinding and Interest Waiver are reasonable.

**Reasons for and the benefits of the Transaction**

*1. Business diversification*

MEC aims to diversify its geographical coverage and mine types. At present, MEC has not invested in any tungsten and tin mines. Matching MEC's business strategy, the Transaction makes business sense.

*2. Prospects of tungsten and tin*

The Explored Resources principally contain resources of tungsten and, to a lesser extent, tin. Tungsten is primarily used in the manufacturing of hard metals, mill products, steel and super alloys, chemicals and surface treatments. Tin is widely used in various industries, including packaging, electrical, construction and transportation. It is also commonly found in cans and containers.

According to the valuation report dated 31st October, 2008 prepared by the Independent Valuer included in Appendix III of this Circular ("Valuation Report"), the PRC is the largest producer of tungsten and tin, accounting for 87% and 41% of the world's production in 2006. Therefore, the PRC alone is a critical factor affecting the world's tungsten and tin supply. As per the Valuation Report, it is the policy of the PRC Government to impose stricter control on illegal mining and excess exploration. Supplies of tungsten and tin are expected to be constrained in the coming years.

Meanwhile, on the back of the strong growth in gross domestic products in the PRC[1], demand for tungsten and tin, both of which have a wide array of applications as stated in paragraph one above, is expected to rise.

Therefore, in long run, prospects of tungsten and tin are favourable.

**Premium of the Consideration Shares**

The issue price of each Consideration Share has not been explicitly stated. However, if the non-share portion of approximately HK$314 million is taken out from the Consideration, the remaining portion will be the Consideration Shares amounting to approximately HK$686 million. Assuming that MEC is to issue a maximum of 100 million Consideration Shares, the issue price would then be HK$6.86 per Share. The following analysis is based on this issue price.

[1] According to Economist dated 18th September, 2008, gross domestic products growth in the PRC is estimated to be 9.8% and 8.5% in 2008 and 2009 respectively.

In assessing the reasonableness of the issue price, we make reference to consideration shares issued and allotted by companies listed on the main board of the Stock Exchange. As tungsten is scarce resource with no recent comparable transaction, we take reference to transactions in relation to exploitation or mining rights of different resources (vast majority of which are located in the PRC) in 2008 to increase the sample size for comparison purposes.

| | | | **Premium/(Discount) of the issue price of consideration shares to the market price of the shares of the issuer prior to the announcement of the relevant transaction** | | |
|---|---|---|---|---|---|
| *Company name* | *Stock code* | *Issue Price (HK$)* | *Last trading day* | *10-day average price* | *30-day average price* |
| Mongolia Energy Corporation Limited | 276 | 6.860 | 523.64% | 210.69% | 108.32% |
| Wing Hing International (Holdings) Limited | 621 | 5.000 | 168.82% | 160.82% | 151.30% |
| New Smart Energy Group Limited | 91 | 0.250 | 90.84% | 93.80% | 95.72% |
| China Fortune Holdings Limited | 110 | 0.550 | 83.33% | 71.88% | 52.99% |
| Sino Union Petroleum & Chemical International Limited | 346 | 1.250 | 0.00% | 5.93% | 13.74% |
| Fushan International Energy Group Limited | 639 | 4.500 | (0.66%) | 3.97% | 4.98% |
| Nubrands Group Holdings Limited | 835 | 0.250 | (1.96%) | (3.10%) | (6.06%) |
| APAC Resources Limited | 1104 | 1.000 | (12.28%) | (4.76%) | 11.11% |
| Wah Nam International Holdings Limited | 159 | 0.300 | (45.45%) | (44.44%) | (51.61%) |
| **Range** | | | **(45.45%) to 523.64%** | **(44.44%) to 210.69%** | **(51.61%) to 151.30%** |

The issue price of the Consideration Shares is at (i) a premium of 523.64% to the closing price as at the day immediately prior to the day of the Supplemental Agreement; (ii) a premium of 210.69% to the average closing price of the 10 consecutive trading days up to and including the day of the Supplemental Agreement; and (iii) a premium of 108.32% to the average closing price of the 30 consecutive trading days up to and including the day of the Supplemental Agreement. All premium levels of the Consideration Shares are either the highest among, or within the ranges of, their respective comparables as set out in the table above. We are of the opinion that the premium of the Consideration Shares is fair and reasonable.

**Consideration as a whole**

Consideration for the Relevant Interest under the Acquisition Agreement is HK$1 billion. The Consideration is payable as follows:

1. HK$200 million to Mr. Liu for procurement of the Transaction in the PRC;

2. Reimbursement of RMB100 million (approximately HK$114 million) paid by Mr. Liu under the Relevant Agreements to the Concession Owner for the purpose of development and commercial exploitation of the Resources (initially, the Explored Resources); and

3. Payment of the balance by Shares of MEC to be allotted at a price as at closing, subject to a maximum of 100 million Shares paid by Mr. Liu to the Concession Owner under the Investment Agreement.

To evaluate the reasonableness of the Consideration, we review the Valuation Report prepared by the Independent Valuer, which states that the valuation of the Resources amounts to RMB4,725 million (approximately HK$5,387 million). Therefore, the value attributable to the Relevant Interest (that is, 20% of the Resources) is RMB945 million (approximately HK$1,077 million).

We have discussed with the Independent Valuer regarding, among other things, the assumptions, bases and methodologies adopted therein. We note that the Independent Valuer has adopted the income approach to evaluate the fair value of the Resources. The Income Approach is one of the most generally accepted ways of determining a value indication of a business or project, business ownership interest, security, intangible asset, or mineral asset using one or more methods that convert anticipated economic benefits into a present single amount by applying an appropriate discount rate. For details, please refer to the Valuation Report in Appendix III of this Circular. We have taken note that revenue and profits cannot be projected with complete accuracy and dependent on the assumptions made.

Based on our review on the Valuation report and discussion with the Independent Valuer regarding, among other things, (i) the scope of work and assumptions of the valuation and (ii) the valuation basis and methodologies, we consider the basis, assumptions and methodologies adopted by the Independent Valuer for the valuation of the Resources to be fair and reasonable.

Having considered that:

1. The Consideration exhibits a 7.2% discount to the fair value of the Relevant Interest;

2. The Consideration is already the maximum possible acquisition price for the Relevant Interest. If the closing price (equivalent to the issue price) of the Shares as at the Closing date is below HK$6.86, the share portion of the Consideration will be less than HK$686 million. For information, as at the Latest Practicable Date, the closing price of the Shares was HK$1.1, implying a value of the Consideration Shares at HK$110 million only; and

3. MEC has, subject to further agreement, the pre-emptive right to acquire up to the remaining 80% benefits of the Resources,

We consider that the Consideration is fair and reasonable as far as the interests of Independent Shareholders and MEC are concerned.

We also note that a Service Fee of HK$200 million will be payable to Mr. Liu upon completion of the Transaction. In return, Mr. Liu procured for MEC the Transaction which would not have been otherwise offered as the Concession Owner is willing to directly deal with Mr. Liu only. In addition, the Service Fee includes the services of Mr. Liu as nominee of MEC on the Relevant Interest and taking MEC's instructions thereon from time to time.

The Service Fee was arrived after commercial negotiations. As the value attributable to the Relevant Interest is higher than the maximum possible Consideration (inclusive of the Service Fee) as mentioned above, the services rendered by Mr. Liu are effectively worth more than HK$200 million. We consider that the Service Fee is fair and reasonable.

As discussed with the chief accountant of MEC, the Service Fee will not have any impact on the profit and loss statements of the Group, and will be capitalized in the non-current "available-for-sale financial asset" on the consolidated balance sheet, subject to fair value accounting treatment.

**Other terms of the Transaction**

According to the Letter from the Board in this Circular, Concession Owner is only willing to deal directly with Mr. Liu, instead of MEC. Therefore, Mr. Liu and the Concession Owner first entered into the Investment Agreement, pursuant to which Mr. Liu acquired the Relevant Interest. Subsequently, pursuant to the Acquisition Agreement, in consideration of the Consideration, Mr. Liu shall hold the monetary benefits of the Relevant Interest upon receipt as nominee of MEC as from closing of the Investment Agreement prior to 1st September, 2008. To the extent that there is any residual monetary benefits with respect to the Relevant Interest not provided to MEC, the same shall be held on trust for the benefit of MEC.

The Transaction contemplated under the Acquisition Agreement is conditional on (i) compliance with the applicable rules and regulations under the Listing Rules (ii) such other reasonable authorizations, approvals, opinions, reports, and permits required by MEC and (iii) the mining licence over the Concession Area having been obtained.

We have reviewed the opinion of the PRC legal adviser to MEC, 華貿硅谷律師事務所 (Huamao & Guigu) dated 28th October, 2008. It is of the view that the benefits arising from the Relevant Interests entitled to Mr. Liu under the Investment Agreement is legally binding, valid and enforceable. Furthermore, the Supplemental Agreement stipulates that the Acquisition Agreement is binding on the successors and assigns of Mr. Liu. In other words, the Acquisition Agreement will be continuously valid, regardless of the status of Mr. Liu.

All in all, the Relevant Interest entitled to MEC is valid and safeguarded and we are of the view that the terms and conditions of the Acquisition Agreement are fair and reasonable as far as the interests of MEC and the Independent Shareholders are concerned.

**Financial Effects**

1. *Effect on earnings per Share*

The Resources did not generate any earnings in the financial year 2008, so no earnings were attributable to the Relevant Interest. Upon completion of the Transaction, total issued shares would have increased by only approximately 1.7% because of the issuance of the 100 million Consideration Shares, thus slightly reducing the earnings per Share. However, the impact is insignificant.

*2. Effect on net asset value per Share*

As set out in Appendix II of this Circular, assuming that Completion took place on 31st March, 2008, the pro forma net asset value per Share of the Group as at 31st March, 2008 would be approximately HK$2.242 per share, increased from the corresponding figure of HK$2.165 immediately prior to Completion.

As discussed with the chief accountant of MEC, the carrying value of the Relevant Interest will have to be determined by the board of directors at each of the interim and final results board meetings, and any change in the fair value of the Relevant Interest will have to be reflected in the equity account of MEC, which can have an impact on net asset value per share.

*3. Effect on working capital*

Under the Acquisition Agreement, MEC shall pay RMB100 million (HK$114 million) as reimbursement for Mr. Liu and set off the amount of HK$200 million due from the Joint Venture as the Service Fee. This will result in reduction in working capital of the Group of approximately HK$314 million upon completion of the Transaction.

*4. Effect on shareholding structure*

The following table sets out the existing shareholding structure of MEC and the effect on that immediately following the issue of the Consideration Shares as part of the Consideration.

| **Shareholders** | **Existing shareholdings** | | **Immediately upon issue of the new Shares** *(Note 6)* **as part of the Consideration** | | **Upon full conversion of Convertible Bond** *(Note 7)* **and issue of new Shares and no conversion of the Convertible Note** *(Note 8)* | | **Upon full conversion of Convertible Bond and issue of new Shares and full conversion of the Convertible Note** | |
|---|---|---|---|---|---|---|---|---|
| **Substantial Shareholders** | *Number of Shares* | *Approximate %* | *Number of Shares* | *Approximate %* | *Number of Shares* | *Approximate %* | *Number of Shares* | *Approximate %* |
| Golden and its associates *(Note 1)* | 1,200,739,301 | 19.85 | 1,200,739,301 | 19.53 | 1,200,739,301 | 18.06 | 1,200,739,301 | 17.35 |
| Puraway Holdings Limited & Mr. Liu *(Note 2)* | 1,025,000,000 | 16.95 | 1,125,000,000 | 18.30 | 1,625,000,000 | 24.44 | 1,625,000,000 | 23.48 |
| **Directors** | | | | | | | | |
| Other directors of the Group *(Note 3)* | 7,483,200 | 0.12 | 7,483,200 | 0.12 | 7,483,200 | 0.11 | 7,483,200 | 0.11 |
| **Public Shareholders** | | | | | | | | |
| CTF Nominee *(Note 4)* | 225,000,000 | 3.72 | 225,000,000 | 3.66 | 225,000,000 | 3.38 | 498,972,602 | 7.21 |
| Dragon and its associates *(Note 5)* | 383,170,000 | 6.34 | 383,170,000 | 6.23 | 383,170,000 | 5.76 | 383,170,000 | 5.54 |
| Other public shareholders | 3,206,827,862 | 53.02 | 3,206,827,862 | 52.16 | 3,206,827,862 | 48.24 | 3,206,827,862 | 46.33 |
| **Total** | 6,048,220,363 | 100.00 | 6,148,220,363 | 100.00 | 6,648,220,363 | 100.00 | 6,922,192,965 | 100.00 |

*Note 1:* Among the 1,200,739,301 Shares, 4,960,000 Shares represent interests of Mr. Lo Lin Shing, Simon ("Mr. Lo") on an individual basis; while 1,194,029,301 Shares represent interests of Golden Infinity Co., Ltd ("Golden"). The balance 1,750,000 Shares represents interests of Mrs. Ku Ming Mei, Rouisa ("Mrs. Lo"). Accordingly, Mr. Lo is deemed to be interested in the Shares in which Golden and Mrs. Lo are interested by virtue of the Securities and Futures Ordinance. Golden is beneficially owned by Mr. Lo.

*Note 2:* Puraway Holdings Limited is a company wholly owned by Mr. Liu Cheng Lin.

*Note 3:* Other directors of the MEC Group, other than Mr. Lo and his associates.

*Note 4:* Chow Tai Fook Nominee Limited is a company controlled by Dato' Dr. Cheng Yu Tung and members of his family.

*Note 5:* Dragon Noble Group Limited ("Dragon") is a company controlled by Dr. Cheng Kar Shun. Among the 383,170,000 Shares, 55,100,000 Shares represent interest of Ms. Ip Mei Hung, spouse of Dr. Cheng Kar Shun.

*Note 6:* Assuming a maximum of 100,000,000 new Shares will be issued to Mr. Liu following Closing.

*Note 7:* Convertible Bond with a principal sum of HK$142,500,000 with initial conversion price at HK$0.285 per share and issued to Puraway Holdings Limited as part of the consideration in the acquisition of concession areas in western Mongolia by MEC as announced on 7th February, 2007.

*Note 8:* Convertible Note with a principal sum of HK$2,000,000,000 with initial conversion price at HK$7.3 per share due 30th April, 2011 to be issued to Chow Tai Fook Nominee Limited as announced on 1st February, 2008.

The Transaction is a long-term investment which is expected to generate revenue from 2010 onwards, according to the current mining plan. Therefore, the unfavourable effects on earnings per Share, working capital and shareholding structure arising from a mine that has not commenced commercial production are inevitable yet fair and reasonable on balance, because the fair value (reflected by the net asset value) of the Group would be enhanced by the Transaction. Furthermore, the financial adviser of MEC has been satisfied that the Group has sufficient working capital for the next 12 months from 1st November, 2008.

**Unwinding of Joint Venture and Interest Waiver**

On 31st August 2007, MEC and Mount Billion Group Limited ("MBGL"), a company owned as to 100% by Mr. Liu, entered into a joint venture agreement ("JV Agreement") to establish a joint venture, owned as to 20% by MEC and 80% by MBGL, aimed at sourcing certain energy and related projects in Xinjiang, the PRC with a value of at least HK$1 billion ("Project"), which namely will be HK$12 for per tonne of coal resources of and 3% for per tonne of other resources by reference to prevailing international market price as determined by MEC.

According to the Joint Venture Agreement, MEC would contribute HK$200 million of then equivalent RMB (the "Fund") to the Joint Venture as a loan carrying an interest rate of 2.5% per annum over the Hong Kong Interbank Offered Rate, and MBGL would be required to secure the Project within six months from the day of JV Agreement. If the conditions were not satisfied, the Joint Venture would be unwound within one month of MEC certifying to MBGL for its intention regarding the unwinding. Upon unwinding, the Fund with the interest adhered should be repaid to MEC. Furthermore, Mr. Liu, as the deficiency guarantor to MBGL, would be obliged to repay MEC any amount falling short in case the Joint Venture could not repay the Fund and interest adhered. Reference is made to MEC's announcement dated 31st August, 2007 for details.

Under the Acquisition Agreement, it is proposed that the Joint Venture shall be unwound with the Fund paid to Mr. Liu as part of the Consideration. Furthermore, MEC also agreed to waive the interest of approximately HK$11.9 million (up to 31st October, 2008) accrued on the Fund upon unwinding.

*1. Unwinding*

We understand that MEC and Mr. Liu have realized that the investment scope of the Joint Venture is too limited, which might preclude investments favourable to MEC yet unfit just because of the restriction of mandate of the Joint Venture. In order to retain a degree of flexibility on cooperation opportunity between MEC and Mr. Liu, such as the Transaction, we are of the view that the unwinding of the Joint Venture is fair and reasonable and in the interests of MEC and the Independent Shareholders as a whole.

*2. Interest Waiver*

If the interest of HK$11.9 million accrued on the Fund were not waivable, Mr. Liu would increase the Consideration by the same amount. In comparison, Interest Waiver is a better alternative than increasing the Consideration by the amount of interest and then returning the interest to MEC, which would attract tax and thus reducing the net payment to MEC.

As mentioned, the valuation of the Relevant Interest is approximately RMB945 million (approximately HK$1,077 million), is higher than the Consideration by at least HK$80 million, depending on the value of the Consideration Shares as at the completion of the Transaction. This extra value is higher than the interest of HK$11.9 million proposed to be waived by MEC. In this regard, we are of the view that the Unwinding and the Interest Waiver are fair and reasonable and in the interests of MEC and the Independent Shareholders as a whole.

**RECOMMENDATION**

Having taken into consideration the principal factors and reasons as set out above, we are of the opinion that the terms and conditions of (i) the Acquisition Agreement and the Transaction contemplated thereunder; (ii) issuance of a maximum of 100 million Shares as part of the Consideration and (iii) the Unwinding and the Interest Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of MEC and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders to vote; and the Independent Shareholders to vote in favour of the resolution, if a special general meeting is to be convened in this regard.

Yours faithfully,
For and on behalf of
**YU MING INVESTMENT MANAGEMENT LIMITED**
**Lee Wa Lun, Warren**
*Director*

## A. SUMMARY OF FINANCIAL RESULTS OF THE GROUP

There is no qualified opinion for the Group for each of the three years ended March 31, 2008, 2007 and 2006. The following financial information has been extracted from the audited financial statements of the Group published in the Company's 2008 and 2007 annual reports, respectively.

### CONSOLIDATED INCOME STATEMENT

*A. FINANCIAL SUMMARY*

Set out below is a summary of the audited consolidated income statement and financial position for the year ended March 31, 2006 as extracted from the annual report of the Group for the year ended March 31, 2007, and that for the years ended March 31, 2007 and 2008 as extracted from the annual report of the Group for the year ended March 31, 2008.

| | **Results of the Group For the year ended March 31,** | | |
|---|---|---|---|
| | **2006** | **2007** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 24,052 | 39,773 | 29,952 |
| Income tax (expenses)/credit | (811) | 4,709 | (34,808) |
| Profit/(loss) for the year | (1,391) | 11,849 | 74,400 |
| Minority interests | 8 | – | – |
| Profit/(loss) attributable to shareholders | (1,383) | 11,849 | 74,400 |
| Dividends | – | – | – |
| Earnings/(loss) per share | | | |
| Basic | HK cents (0.25) | HK cents 0.62 | HK cents 2.32 |
| Diluted | HK cents 0.02 | HK cents 0.61 | HK cents 2.31 |
| Dividend per share | – | – | – |

**CONSOLIDATED BALANCE SHEET**

| | As at March 31, | | |
|---|---|---|---|
| | **2006** | **2007** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Restated)* | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 143,992 | 139,897 | 213,870 |
| Investment properties | 385,000 | 350,000 | 540,000 |
| Intangible assets | – | – | 380 |
| Exploration and evaluation assets | – | – | 12,712,228 |
| Interests in associates | – | 9,246 | 41,936 |
| Interests in a jointly controlled entity | 15,104 | – | – |
| Amount due from a jointly controlled entity | – | 48,567 | – |
| Long terms receivable | 12,668 | – | – |
| Held-for-trading investments | 42,524 | – | – |
| Other assets | 1,150 | 1,150 | 1,150 |
| Prepayments for exploration and evaluation expenditure | – | 21,661 | 103,758 |
| Deposits for property, plant and equipment | – | – | 78,233 |
| | 600,438 | 570,521 | 13,691,555 |
| **Current assets** | | | |
| Accounts receivable | 4,475 | 2,075 | 1,743 |
| Other receivables, prepayments and deposits | 13,715 | 25,273 | 16,185 |
| Held-for-trading investments | 27,946 | 125,098 | 54,383 |
| Amount due from an associate | – | – | 200,000 |
| Cash and cash equivalents | 171,485 | 67,710 | 254,341 |
| | 217,621 | 220,156 | 526,652 |
| Assets classified as held for sale | – | 52,402 | – |
| | 217,621 | 272,558 | 526,652 |
| **Current liabilities** | | | |
| Accounts payable | 4,207 | 7,883 | 6,308 |
| Other payables and accruals | 11,972 | 27,950 | 38,164 |
| Amount due to an associate | – | – | 8,898 |
| Short-term bank loans | 151,724 | 126,800 | 197,900 |
| Tax payable | 286 | 671 | 301 |
| | 168,189 | 163,304 | 251,571 |

| | As at March 31, | | |
|---|---|---|---|
| | **2006** | **2007** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Restated)* | | |
| **Net current assets** | 49,432 | 109,254 | 275,081 |
| **Total assets less current liabilities** | 649,870 | 679,775 | 13,966,636 |
| **Non-current liabilities** | | | |
| Convertible notes | 175,528 | – | 114,880 |
| Loan note | – | – | 684,221 |
| Deferred income tax liabilities | 47,216 | 38,381 | 72,413 |
| | 222,744 | 38,381 | 871,514 |
| **Net assets** | 427,126 | 641,394 | 13,095,122 |
| **Financed by:** | | | |
| **Equity** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 29,737 | 52,327 | 120,945 |
| Reserves | 397,332 | 589,010 | 12,974,120 |
| | 427,069 | 641,337 | 13,095,065 |
| **Minority interests** | 57 | 57 | 57 |
| **Total equity** | 427,126 | 641,394 | 13,095,122 |

## B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED MARCH 31, 2008

The following is a reproduction of the text of the audited consolidated financial statements of the Group together with the accompanying notes contained in pages 45 to 98 of the annual report of the Company for the year ended March 31, 2008:

**Consolidated Income Statement**
*for the year ended March 31, 2008*

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Revenue** | 6 | 29,952 | 39,773 |
| Bank interest income | | 3,342 | 4,351 |
| Dividend income from listed equity securities | | 15 | 20,442 |
| Direct aviation costs | | (1,311) | (12,842) |
| Staff costs | | (39,818) | (23,766) |
| Depreciation | 12 | (12,909) | (8,180) |
| Other expenses | | (63,963) | (20,558) |
| Fair value gain (loss) on investment properties | 13 | 190,000 | (35,000) |
| Provision for impairment on amounts due from associates and a related company | | – | (4,015) |
| Gain on fair value changes from held-for-trading investments | | 20,075 | 46,096 |
| Reversal of impairment losses on long term receivable | | – | 11,179 |
| Reversal of impairment losses on amount due from a related company | | – | 3,037 |
| Gain on disposal of interest in subsidiaries | | – | 2,703 |
| Gain on disposal of interests in jointly controlled entities | | 12,402 | – |
| Gain on disposal of interests in associates | | 5,747 | – |
| Finance costs | 7 | (31,271) | (16,145) |
| Share of (loss) profit of associates | | (2,365) | 67 |
| Share of loss of a jointly controlled entity | | (688) | (2) |
| Profit before taxation | 8 | 109,208 | 7,140 |
| Income tax (expense) credit | 9 | (34,808) | 4,709 |
| Profit for the year attributable to the equity holders of the Company | | 74,400 | 11,849 |
| **Earnings per share** | 11 | | |
| – basic (HK cents) | | 2.32 | 0.62 |
| – diluted (HK cents) | | 2.31 | 0.61 |

**Consolidated Balance Sheet**
*at March 31, 2008*

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 213,870 | 139,897 |
| Investment properties | 13 | 540,000 | 350,000 |
| Intangible assets | 14 | 380 | – |
| Exploration and evaluation assets | 15 | 12,712,228 | – |
| Interests in associates | 16 | 41,936 | 9,246 |
| Interests in a jointly controlled entity | 18 | – | – |
| Amount due from a jointly controlled entity | 18 | – | 48,567 |
| Other assets | 20 | 1,150 | 1,150 |
| Prepayments for exploration and evaluation expenditure | 21 | 103,758 | 21,661 |
| Deposits for property, plant and equipment | | 78,233 | – |
| | | 13,691,555 | 570,521 |
| **Current assets** | | | |
| Accounts receivable | 22 | 1,743 | 2,075 |
| Other receivables, prepayments and deposits | | 16,185 | 25,273 |
| Held-for-trading investments | 19 | 54,383 | 125,098 |
| Amount due from an associate | 16 | 200,000 | – |
| Cash and cash equivalents | 23 | 254,341 | 67,710 |
| | | 526,652 | 220,156 |
| Assets classified as held for sale | 17 | – | 52,402 |
| | | 526,652 | 272,558 |
| **Current liabilities** | | | |
| Accounts payable | 24 | 6,308 | 7,883 |
| Other payables and accruals | | 38,164 | 27,950 |
| Amount due to an associate | 16 | 8,898 | – |
| Short-term bank loans | 25 | 197,900 | 126,800 |
| Tax payable | | 301 | 671 |
| | | 251,571 | 163,304 |
| **Net current assets** | | 275,081 | 109,254 |
| **Total assets less current liabilities** | | 13,966,636 | 679,775 |
| **Non-current liabilities** | | | |
| Convertible notes | 26 | 114,880 | – |
| Loan note | 27 | 684,221 | – |
| Deferred income tax liabilities | 28 | 72,413 | 38,381 |
| | | 871,514 | 38,381 |
| **Net assets** | | 13,095,122 | 641,394 |

| | Note | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **Financed by:** | | | |
| **Equity** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 29 | 120,945 | 52,327 |
| Reserves | | 12,974,120 | 589,010 |
| | | 13,095,065 | 641,337 |
| **Minority interests** | | 57 | 57 |
| **Total equity** | | 13,095,122 | 641,394 |

The consolidated financial statements on pages 45 to 98 were approved and authorised for issue by the Board of Directors on July 23, 2008 and are signed on its behalf by:

| **Lo Lin Shing, Simon** | **Yvette Ong** |
|---|---|
| *Director* | *Director* |

**Consolidated Statement of Changes in Equity**

*for the year ended March 31, 2008*

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Contributed surplus | Capital reserve | Share options reserve | Exchange translation | Retained profits | 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 April 1, 2006 | 29,737 | 158,856 | 199,594 | 17,711 | 1,707 | – | 19,464 | 427,069 | 57 | 427,126 |
| Profit and total recognised income for the year | – | – | – | – | – | – | 11,849 | 11,849 | – | 11,849 |
| Total recognised income and expense for the year | – | – | – | – | – | – | 11,849 | 11,849 | – | 11,849 |
| Issue of shares | | | | | | | | | | |
| – Conversion of convertible notes | 22,222 | 180,242 | – | (21,206) | – | – | – | 181,258 | – | 181,258 |
| – Reversal of deferred tax on equity component of convertible notes | – | – | – | 3,495 | – | – | – | 3,495 | – | 3,495 |
| – Exercise of share options | 368 | 6,716 | – | – | (1,707) | – | – | 5,377 | – | 5,377 |
| Share-based compensation expenses | – | – | – | – | 12,289 | – | – | 12,289 | – | 12,289 |
| Balance at March 31, 2007 and April 1, 2007 | 52,327 | 345,814 | 199,594 | – | 12,289 | – | 31,313 | 641,337 | 57 | 641,394 |
| Currency translation differences and income recognised directly to equity | – | – | – | – | – | (1,035) | – | (1,035) | – | (1,035) |
| Profit and total recognised income for the year | – | – | – | – | – | – | 74,400 | 74,400 | – | 74,400 |
| Total recognised income and expense for the year | – | – | – | – | – | (1,035) | 74,400 | 73,365 | – | 73,365 |
| Share-based compensation expenses | – | – | – | – | 9,439 | – | – | 9,439 | – | 9,439 |
| Convertible note equity component | – | – | – | 3,529,218 | – | – | – | 3,529,218 | – | 3,529,218 |
| Issue of shares | | | | | | | | | | |
| – Acquisition of mining, and exploration rights | 22,500 | 8,223,750 | – | – | – | – | – | 8,246,250 | – | 8,246,250 |
| – Subscription of shares | 23,600 | 294,700 | – | – | – | – | – | 318,300 | – | 318,300 |
| – Placing of shares | 22,000 | 242,000 | – | – | – | – | – | 264,000 | – | 264,000 |
| – Exercise of share options | 518 | 31,445 | – | – | (13,503) | – | – | 18,460 | – | 18,460 |
| Share issue expenses | – | (5,304) | – | – | – | – | – | (5,304) | – | (5,304) |
| Balance at March 31, 2008 | 120,945 | 9,132,405 | 199,594 | 3,529,218 | 8,225 | (1,035) | 105,713 | 13,095,065 | 57 | 13,095,122 |

**Consolidated Cash Flow Statement**
*for the year ended March 31, 2008*

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Operating activities** | | |
| Profit before income tax | 109,208 | 7,140 |
| Interest income | (3,342) | (4,351) |
| Interest expenses | 31,271 | 16,145 |
| Dividend income | (15) | (20,442) |
| Written off of property, plant and equipment | 13 | – |
| Share of loss (profit) of associates | 2,365 | (67) |
| Share of loss of a jointly controlled entity | 688 | 2 |
| Amortisation of intangible asset | 44 | – |
| Depreciation | 12,909 | 8,180 |
| Fair value (gain) loss on investment properties | (190,000) | 35,000 |
| Provision for amounts due from associates and a related company | – | 4,015 |
| Gain on disposal of subsidiaries | – | (2,703) |
| Gain on disposal of interest in associates | (5,747) | – |
| Gain on disposal of interest in a jointly controlled entity | (12,402) | – |
| Gain on fair value changes from held-for-trading investments | (20,075) | (46,096) |
| Reversal of impairment losses of long term receivable | – | (11,179) |
| Reversal of impairment losses of a related company | – | (3,037) |
| Share based compensation expenses | 9,439 | 12,289 |
| Operating cash flows before movements in working capital | (65,644) | (5,104) |
| Decrease (increase) in accounts receivables, other receivables, prepayments and deposits | 9,084 | (24,305) |
| Decrease (Increase) of held-for-trading investments | 90,760 | (8,562) |
| (Decrease) increase in accounts payables, other payables and accruals | (7,566) | 48,846 |
| Net cash generated from operations | 26,634 | 10,875 |
| Tax refund – Hong Kong profits tax | 122 | 40 |
| Tax paid – Hong Kong profits tax | (902) | – |
| **Net cash generated from operating activities** | 25,854 | 10,915 |

| | *Note* | **2008** *HK$'000* | **2007** *HK$'000* |
|---|---|---|---|
| **Investing activities** | | | |
| Purchase of property, plant and equipments | | (86,895) | (5,224) |
| Proceeds from disposal of property, plant and equipment | | – | 183 |
| Exploration and evaluation assets additions | | (151,355) | – |
| Intangible asset additions | | (424) | – |
| Increase in prepayments for exploration and evaluation expenditure | | (82,097) | (21,661) |
| Increase in deposits for property, plant and equipment | | (78,233) | – |
| Acquisitions of associates | | – | (8,729) |
| Capital contribution to associates | | (35,413) | – |
| Disposal of associates | | 62,135 | – |
| Advance to associates | | (179,560) | (56,865) |
| Sales of a jointly controlled entity | | 134,668 | – |
| Advance to a jointly controlled entity | | (74,387) | (33,467) |
| Repayment received from long term receivable | | – | 23,877 |
| Net cash outflows on disposal of a subsidiary | *33* | – | (7,635) |
| Dividend income | | 15 | 20,442 |
| Bank interest received | | 3,342 | 4,351 |
| **Net cash used in investing activities** | | (488,204) | (84,728) |
| **Financing activities** | | | |
| Drawdown (repayment) of borrowings | | 71,100 | (24,924) |
| Proceeds received from issue of shares | | 582,300 | 5,377 |
| Proceeds received from exercise of share options | | 18,460 | – |
| Interest paid on bank and other borrowings | | (17,575) | (10,415) |
| Share issue expenses | | (5,304) | – |
| **Net cash generated from (used) in financing activities** | | 648,981 | (29,962) |
| **Net increase (decrease) in cash and cash equivalents** | | 186,631 | (103,775) |
| **Cash and cash equivalents at beginning of the year** | | 67,710 | 171,485 |
| **Cash and cash equivalents at end of the year** | | 254,341 | 67,710 |

## Notes to the Consolidated Financial Statements

*for the year ended March 31, 2008*

### 1. GENERAL

The Company is a public limited liability company incorporated in Bermuda. The address of its principal place of business is Room 1502-5, 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.

Pursuant to a special resolution passed at a special general meeting of its shareholders held on April 18, 2007, the name of the Company was changed from New World Cyberbase Limited to Mongolia Energy Corporation Limited. The Company acts as an investment holding company and its subsidiaries (together the "Group") are principally engaged in energy and related resources, property investments and provision of charter flight services.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

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

In current year, the Group has applied the following new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for the Group's financial year beginning April 1, 2007.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-Int 11 | HKFRS 2: Group and Treasury Share Transactions |

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendments or interpretations which have been issued but not yet effective.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[1] |
| HKFRS 3 (Revised) | Business Combinations[2] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC)-Int 12 | Service Concession Arranagements[3] |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC)-Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3] |

[1] Effective for annual periods beginning on or after January 1, 2009
[2] Effective for annual periods beginning on or after July 1, 2009
[3] Effective for annual periods beginning on or after January 1, 2008
[4] Effective for annual periods beginning on or after July 1, 2008

HKAS 23 (Revised) eliminated the option available under the previous version of HKAS 23 to recognise all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, HKAS 23 (Revised) requires that they shall be capitalised as part of the cost of that asset. All other borrowing costs should be expensed as incurred. The Group currently expenses all borrowing costs as incurred. As a result of the application of HKAS 23 (Revised), borrowing costs related to the acquisition, construction or production of a qualifying asset will be capitalised. The application of the standard on the current year financial statements will result in the capitalisation of interest of HK$17,030,000 of for the acquisition of the mining and exploration rights.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009, HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties 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 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.

**Investments in associates**

Associates are all entities over which the Group has significant influence which are neither subsidiaries nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associates equals or exceeds its interest in the associates (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**Investments in jointly controlled entities**

A jointly controlled entity is a joint venture in which the Group and other parties undertake an economic activity which is subject to jointly control and none of the participating parties has unilateral control over the economic activity. The Group's investments in jointly controlled entities are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its jointly controlled entity's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell as at balance sheet date.

**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 and sales related taxes.

*(a) Rental and management fee income*

Rental income is recognized 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.

*(d) Dividend income*

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated 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**

*Intangible assets acquired separately*

Software acquired separately and with finite useful lives are carried at costs 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.

**Prepayments for exploration and evaluation expenditure**

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

**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 entity 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 entity has decided to discontinue such activities in the specific area.

- 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 profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from 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 each balance sheet date, 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 profit or loss 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.

**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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet 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 translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, 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 as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

**Borrowing costs**

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

**Retirement benefits costs**

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

**Taxation**

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

The tax currently payable is based on 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 by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. 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, and interests in jointly controlled entities, 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 each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Financial instruments**

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

*Financial assets*

The Group's financial assets are classified into one of two categories, including financial assets at held-fortrading investments 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 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 asset, or, where appropriate, a shorter period to the net carrying amount of the asset.

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.

At each balance sheet date subsequent to initial recognition, held-for-trading investments are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including accounts receivable, other receivables, amounts due from related companies and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. 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 impacted.

For all other financial assets, 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 certain categories of financial assets, such as accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an accounts receivable balance is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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 losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Financial liabilities and equity*

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

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 through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the liability.

Interest expense is recognised on an effective interest basis.

Convertible notes

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into 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 to the acquisition of the mining and exploration rights set out in Note 15 (the "2008 Convertible Notes"), 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 capital reserve until the embedded option is exercised (in which case the balance stated in 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 the retained profits. No gain or loss is recognised in profit or loss 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.

Other financial liabilities

Other financial liabilities including short-term bank loan, accounts payable, other payables 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.

*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 equity is recognised in profit or loss.

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

*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 contact 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.

**Equity-settled share-based payment transactions**

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

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

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 November 7, 2002 and vested before April 1, 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 year.

The capital structure of the Group consists of debt, which included the borrowings disclosed in notes 25 and 27, convertible notes disclosed in note 26 and equity attributable to equity holders of the parent, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly, taking into account of 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**

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Financial assets** | | |
| Loans and receivables (including bank balances and cash) | 447,694 | 204,764 |
| Held-for-trading investments | 54,383 | 125,098 |
| **Financial liabilities** | | |
| Measured at amortised cost | 1,033,270 | 142,707 |

**5b. Financial risk management objectives and policies**

The Group's major financial instruments include accounts receivable, other receivables, held-fortrading investments, cash and cash equivalents, accounts payable, other payables, short term bank loans, convertible notes and 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 risks. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner:

*Market risk*

(i) Currency risk

Several subsidiaries the Company mainly operates in Hong Kong and Mongolia and the exposure in exchange rate risk mainly arises from accounts receivable, accounts payable and bank balances denominated in the foreign currency.

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

| | **Liabilities** | | **Assets** | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| United State Dollars ("US$") | 727 | 2,688 | 288 | 7,566 |
| Renminbi ("RMB") | 1 | 1 | 1,178 | 8,772 |

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 arises.

Sensitivity analysis

The Group is mainly exposed to the fluctuation of RMB against the functional currency of HK$. As HK$ is pegged to US$, the exposure to fluctuations in exchange rate of HK$ against US$ is not considered significant and thus the effect is not considered in the sensitivity analysis.

The following table details the Group's sensitivity to a 5% increase and decrease in HK$ against the relevant foreign currency of RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes accounts receivable, bank balances and accounts payable denominated in RMB. A negative number below indicates a decrease in profit where the HK$ strengthens 5% against RMB. For a 5% weakening of the HK$ against RMB, there would be an equal and opposite impact on the profit.

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit for the year | | |
| – RMB | (59) | (439) |

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings, such as convertible note and loan note (see Notes 26 and 27 for details of these borrowings). 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 is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see Notes 23 and 25 for details). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity section of this note. The Group's cash flow interest rate risk is mainly contracted on the fluctuation of Hong Kong Interbank Offer Rate ("HIBOR") arising from the Group's Hong Kong Dollar denominated bank balances and short term borrowings.

Sensitivity analysis

The sensitivity analyses below has been determined based on the exposure to interest rates for bank balances and short term borrowings at the balance sheet date. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended March 31, 2008 would decrease/increase by HK$238,531 (2007: decrease/increase by HK$215,281). This is mainly attributable to the Group's exposure to interest rates on its bank balances and variable rates on short term borrowings.

(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 information technology software and service industry.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the balance sheet date.

If the prices of the respective equity instruments had been 5% higher/lower, profit for the year ended March 31, 2008 would increase/decrease by HK$2,719,000 (2007: increase/decrease by HK$6,255,000) as a result of the changes in fair value of held-for-trading investments.

*Credit risk*

As at March 31, 2008, 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:

(1) the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and

(2) the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in Note 31.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date 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 amount due from an associate. At March 31, 2008, the amount due from an associate represents an advance granted to one associate. The failure of this associate to make required payment could have a substantial negative impact on the Group's profits and liquidity. In order to minimise the credit risk, management of the Group has established procedures to monitor the business operation and financial position of the associate. In addition, the Group reviews the balance with this associate at each balance sheet date 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 credit risk on liquid funds is limited because the counterparties are banks with good reputations.

*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 bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative 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.

2008

| | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Total undiscounted cash flows | Carrying amount at March 31, 2008 |
|---|---|---|---|---|---|---|---|
| | *%* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-derivative financial liabilities** | | | | | | | |
| Accounts payables | – | 3,094 | 1,287 | 1,927 | – | 6,308 | 6,308 |
| Other payables | – | 4,139 | 1,298 | 24,524 | – | 29,961 | 29,961 |
| Bank borrowings | 5.00 | – | – | 198,255 | – | 198,255 | 197,900 |
| Convertible note | 3.00 | – | – | – | 155,325 | 155,325 | 114,880 |
| Loan note | 5.00 | – | – | – | 905,625 | 905,625 | 684,221 |
| | | 7,233 | 2,585 | 224,706 | 1,060,950 | 1,295,474 | 1,033,270 |

2007

| | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | Total undiscounted cash flows | Carrying amount at March 31, 2007 |
|---|---|---|---|---|---|---|
| | *%* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-derivative financial liabilities** | | | | | | |
| Accounts payables | – | 1,848 | 1,094 | 4,941 | 7,883 | 7,883 |
| Other payables | – | 146 | 7,878 | – | 8,024 | 8,024 |
| Bank borrowings | 5.21 | – | – | 136,683 | 136,683 | 126,800 |
| | | 1,994 | 8,972 | 141,624 | 152,590 | 142,707 |

**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 using prices or rates from observable current market transactions as input.

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

## 6. REVENUE AND SEGMENT INFORMATION

Revenue represents rental income and management free income earned from investment properties and charter flight income.

Revenues recognised during the year are as follows:

| | **2008** | **2007** |
|---|---:|---:|
| | *HK$'000* | *HK$'000* |
| Rental income from investment properties | 22,383 | 19,132 |
| Management fee from investment properties | 4,525 | 4,397 |
| Gross rental income and management fee | 26,908 | 23,529 |
| Charter flight income | 3,044 | 16,244 |
| | 29,952 | 39,773 |

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

**Primary reporting format – business segments**

In 2008, the Group has commenced its business in coal mining (under the Group's energy and related resources business) and is organised into three main business segments, namely coal mining, property investments and charter flight services.

There are no sales or other transactions between business segments.

The segment results for the year ended March 31, 2008 are as follows:

| | Coal mining | Property investments | Charter flight services | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | – | 26,908 | 3,044 | 29,952 |
| Segment results | (17,448) | 212,117 | (15,087) | 179,582 |
| Unallocated corporate expenses | | | | (77,631) |
| Investment income | | | | 3,357 |
| Gain on fair value changes from held-for-trading investments | | | | 20,075 |
| Gain on disposal of interests in jointly controlled entities | | | | 12,402 |
| Gain on disposal of interests in associates | | | | 5,747 |
| Finance costs | | | | (31,271) |
| Share of losses of associates | | | | (2,365) |
| Share of loss of a jointly controlled entity | | | | (688) |
| Profit before income tax | | | | 109,208 |
| Income tax expense | | | | (34,808) |
| Profit for the year | | | | 74,400 |
| Depreciation | 3,620 | – | 7,178 | 10,798 |
| Amortisation | 44 | – | – | 44 |
| Unallocated depreciation | | | | 2,111 |
| | | | | 12,953 |
| Capital expenditure | 12,787,916 | – | – | 12,787,916 |
| Unallocated capital expenditure | | | | 11,587 |
| | | | | 12,799,503 |

The segment results for the year ended March 31, 2007 are as follows:

| | **Property investments** | **Charter flight services** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 23,529 | 16,244 | 39,773 |
| Segment results | (17,015) | (14,634) | (31,649) |
| Unallocated corporate expenses | | | (28,924) |
| Investment income | | | 24,793 |
| Gain on fair value changes from held-for-trading investments | | | 46,096 |
| Reversal of impairment losses on long term receivable | | | 11,179 |
| Gain on disposal of interests in subsidiaries | | | 2,703 |
| Reversal of impairment loss of amount due from a related company | | | 3,037 |
| Provision for impairment on amounts due from associates and a related company | | | (4,015) |
| Finance costs | | | (16,145) |
| Share of profits of associates | | | 67 |
| Share of loss of a jointly controlled entity | | | (2) |
| Profit before taxation | | | 7,140 |
| Income tax credit | | | 4,709 |
| Profit for the year | | | 11,849 |
| Depreciation | – | 7,927 | 7,927 |
| Unallocated depreciation | | | 253 |
| | | | 8,180 |
| Unallocated capital expenditure | | | 5,221 |

The segment assets and liabilities at March 31, 2008 are as follows:

| | **Coal mining** | **Property investments** | **Charter flight services** | **Unallocated** | **Total** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Assets | 12,863,450 | 542,685 | 184,338 | 618,836 | 14,209,309 |
| Liabilities | 821,028 | 10,295 | 728 | 282,136 | 1,114,187 |

The segment assets and liabilities at March 31, 2007 are as follows:

| | Property investments | Charter flight services | Unallocated | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Assets | 362,099 | 198,056 | 282,924 | 843,079 |
| Liabilities | 6,046 | 2,834 | 192,805 | 201,685 |

**Secondary reporting format – geographical segments**

The Group operates in three main geographical areas:

| | |
|---|---|
| Hong Kong: | Property investments and charter flight services |
| Mainland China: | Coal mining |
| Mongolia: | Coal mining |

There are no sales between geographical segments.

| | For the year ended March 31, | | | |
|---|---|---|---|---|
| | Revenue | | Capital expenditure | |
| | 2008 | 2007 | 2008 | 2007 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong | 29,952 | 39,773 | – | – |
| Mainland China | – | – | 8,962 | – |
| Mongolia | – | – | 12,778,954 | – |
| | 29,952 | 39,773 | 12,787,916 | – |

| | March 31, 2008 | March 31, 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Assets** | | |
| Hong Kong | 693,985 | 499,026 |
| Mainland China | 43,167 | 61,129 |
| Mongolia | 12,853,321 | – |
| | 13,590,473 | 560,155 |

Revenue is allocated based on the countries or locations in which the customers are located. Assets and capital expenditure are allocated based on where the assets are located.

## 7. FINANCE COSTS

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest on borrowings wholly repayable within five years: | | |
| – bank loans | 9,528 | 6,771 |
| – convertible note *(Note 26)* | 2,005 | 9,374 |
| – loan note *(Note 27)* | 11,691 | – |
| – other borrowings *(Note)* | 8,047 | – |
| | 31,271 | 16,145 |

*Note:* The amount includes an interest paid to Mr. Lo Lin Shing, Simon ("Mr. Lo"), the executive director of the Company, of HK$3,004,000 for short term loans advanced to the Company during the year. The interest expense was charged at 1% or 1.5% over HIBOR. The loans were fully repaid during the year.

## 8. PROFIT BEFORE TAXATION

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit before taxation has been arrived at after charging: | | |
| Directors' remuneration *(Note 10)* | 4,002 | 3,334 |
| Other staff costs | 35,398 | 20,298 |
| Retirement benefits scheme contributions (excluding director's contributions) | 418 | 134 |
| Total staff costs | 39,818 | 23,766 |
| Auditor's remuneration | 1,464 | 867 |
| Operating lease rental in respect of office premises | 8,058 | 1,332 |
| Direct operating expenses arising from investment properties that generate rental income | 3,121 | 5,292 |
| Direct operating expenses arising from investment properties that did not generate rental income | 187 | 126 |
| Depreciation of property, plant and equipment | 12,909 | 8,180 |
| Amortisation on software | 44 | – |
| Write off of property, plant and equipment | 13 | 183 |
| Net exchange losses (included in other expenses) | 297 | – |

## 9. INCOME TAX EXPENSE (CREDIT)

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

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current income tax: | | |
| – Hong Kong profits tax | 819 | 616 |
| – (Over) under provision for Hong Kong profits tax in prior year | (43) | 15 |
| Deferred income tax *(Note 28)* | 34,032 | (5,340) |
| | 34,808 | (4,709) |

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

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

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit before income tax | 109,208 | 7,140 |
| Calculated at a tax rate of 17.5% | 19,111 | 1,250 |
| Tax effect on income not subject to tax | (7,277) | (15,488) |
| Tax effect on expenses not deductible for tax purposes | 12,471 | 1,676 |
| Tax effect on tax loss not recognised | 10,546 | 7,838 |
| (Over) under provision in prior year | (43) | 15 |
| Income tax expense (credit) | 34,808 | (4,709) |

**10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**

**(a) Directors' emoluments**

The remuneration of each of the directors for the year ended March 31, 2008 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 | – | – | 648 | 1,279 | – | 1,927 |
| Yvette Ong | – | 1,707 | 46 | – | 12 | 1,765 |
| *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 | 694 | 1,279 | 12 | 4,002 |

The remuneration of each of the directors for the year ended March 31, 2007 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 | – | – | 648 | – | – | 648 |
| Yvette Ong | – | 1,707 | 45 | – | 12 | 1,764 |
| *Non-executive director* | | | | | | |
| To Hin Tsun, Gerald | 10 | – | – | – | – | 10 |
| *Independent non-executive directors* | | | | | | |
| Peter Pun | 100 | – | – | 204 | – | 304 |
| Wei Chi Kuan, Kenny | 44 | – | – | – | – | 44 |
| Lau Wai Piu | 100 | – | – | 204 | – | 304 |
| Tsui Hing Chuen, William | 56 | – | – | 204 | – | 260 |
| | 310 | 1,707 | 693 | 612 | 12 | 3,334 |

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 one (2007: one) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2007: four) highest paid individuals during the year are as follows:

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Basic salaries, other allowances and benefits in kind | 12,817 | 2,987 |
| Discretionary bonus | – | 184 |
| Contributions to pension scheme | 24 | 34 |
| Share based payments | 7,481 | 11,248 |
| | 20,322 | 14,453 |

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| **Emolument bands** | **2008** | **2007** |
| Nil – HK$1,000,000 | – | 2 |
| HK$1,500,001 – HK$2,000,000 | 1 | 1 |
| HK$3,500,001 – HK$4,000,000 | 1 | – |
| HK$6,000,001 – HK$6,500,000 | 1 | – |
| HK$8,500,001 – HK$9,000,000 | 1 | – |
| HK$11,000,001 – HK$11,500,000 | – | 1 |
| | 4 | 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.

**11. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the profit for the year attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on profit attributable to the equity holders of the Company adjusted for interest expense on convertible notes. The weighted average number of ordinary shares in issue during the year, as used in the calculation of basic earnings per share, adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

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

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Earnings** | | |
| Profit attributable to the equity holders of the Company, as used in the calculation of basic earnings per share | 74,400 | 11,849 |
| Interest expense on convertible notes | 2,005 | – |
| Profit attributable to the equity holders of the Company, as used in the calculation of diluted earnings per share | 76,405 | 11,849 |

| | Number of shares | |
|---|---|---|
| | 2008 | 2007 |
| | *'000* | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares in issue for calculation of basic earnings per share | 3,207,408 | 1,924,389 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible notes | 86,065 | – |
| Share options | 20,050 | 9,894 |
| Weighted average number of ordinary shares in issue for diluted earnings per share | 3,313,523 | 1,934,283 |

The computation of 2007 diluted earnings per share did not assume the conversion of the Company's outstanding convertible notes since their exercise would result in an increase in earnings per share.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings at the mining site | Leasehold improve-ments | Computer equipment | Furniture, fixtures and office equipment | Plant, machinery and other equipment | Motor vehicles | Aircraft | Total |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **COST** | | | | | | | | |
| At March 31, 2006 | – | 620 | 3,343 | 1,139 | – | 397 | 143,568 | 149,067 |
| Additions | – | 1,487 | 255 | 250 | – | 3,232 | – | 5,224 |
| Disposals/written off | – | (182) | – | (335) | – | (397) | – | (914) |
| Disposal of subsidiaries | – | (642) | (204) | (214) | – | – | – | (1,060) |
| At April 1, 2007 | – | 1,283 | 3,394 | 840 | – | 3,232 | 143,568 | 152,317 |
| Additions | 56,665 | 10,804 | 2,742 | 3,531 | 4,740 | 8,413 | – | 86,895 |
| Written off | – | – | (1,563) | (569) | – | – | – | (2,132) |
| **At March 31, 2008** | 56,665 | 12,087 | 4,573 | 3,802 | 4,740 | 11,645 | 143,568 | 237,080 |
| **ACCUMULATED DEPRECIATION** | | | | | | | | |
| At March 31, 2006 | – | 178 | 3,145 | 899 | – | 212 | 641 | 5,075 |
| Charge for the year | – | 119 | 40 | 25 | – | 146 | 7,850 | 8,180 |
| Disposal/written off | – | (182) | – | (330) | – | (219) | – | (731) |
| Disposal of subsidiaries | – | (63) | (26) | (15) | – | – | – | (104) |
| At April 31, 2007 | – | 52 | 3,159 | 579 | – | 139 | 8,491 | 12,420 |
| Charge for the year | 1,417 | 1,587 | 516 | 344 | 143 | 1,724 | 7,178 | 12,909 |
| Written off | – | – | (1,558) | (561) | – | – | – | (2,119) |
| **At March 31, 2008** | 1,417 | 1,639 | 2,117 | 362 | 143 | 1,863 | 15,669 | 23,210 |
| **NET BOOK VALUE** | | | | | | | | |
| **At March 31, 2008** | 55,248 | 10,448 | 2,456 | 3,440 | 4,597 | 9,782 | 127,899 | 213,870 |
| At March 31, 2007 | – | 1,231 | 235 | 261 | – | 3,093 | 135,077 | 139,897 |

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 |

**13. INVESTMENT PROPERTIES**

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| At beginning of the year | 350,000 | 385,000 |
| Increase (decrease) in fair value recognised in the income statement | 190,000 | (35,000) |
| At end of the year | 540,000 | 350,000 |

The Group's investment properties were revalued on an open market value basis at March 31, 2008 by Jones Lang LaSalle Sallmanns ("Sallmanns"), an independent professionally qualified valuer. Sallmanns has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

Investment properties with an aggregate carrying amount of HK$540,000,000 (2007: HK$350,000,000 ) have been pledged to secure banking facilities to the extent of HK$197,900,000 (2007: HK$126,800,000) granted to the Group (Note 25).

The investment properties are located in Hong Kong and are held on leases of between 10 to 50 years.

Subsequent to March 31, 2008, the shareholders of the Company have approved, through an ordinary resolution passed at a special general meeting, the disposal of all investment properties held by the Group (the "Property disposal") at a consideration of HK$540 million. The Property disposals are subject to fulfillment of certain conditions which were met on July 15, 2008 and the disposal was finalised.

**14. INTANGIBLE ASSETS**

| | **Software** |
|---|---|
| | *HK$'000* |
| Additions during the year | 424 |
| Less: Amortisation | (44) |
| **As at March 31, 2008** | 380 |

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

| | |
|---|---|
| Software | 3 years |

## 15. EXPLORATION AND EVALUATION ASSETS

| | *HK$'000* |
|---|---|
| Additions during the year and as at March 31, 2008 | 12,712,228 |

*Note:*

On January 30, 2007, the Group entered into an acquisition agreement (the "Initial agreement") with Puraway Holdings Limited and its subsidiaries (the "PHL"), which is wholly owned by Mr. Liu Cheng Lin ("Mr. Liu"), an independent third party under which the PHL conditionally agreed to sell and the Group conditionally agreed to purchase the mining and exploration rights to an area of 34,000 hectares of a coal mine located in Khovd Province in Mongolia and its mining assets. The Group agreed, upon satisfying a list of precedent conditions, to issue to the PHL: (1) 1,125,000,000 new shares of the Company, (2) HK$142.5 million convertible note with a 3% per annum coupon rate with a 3-year maturity ("2008 Convertible Note"), and (3) HK$787.5 million loan note with a 5% per annum coupon rate with 3-year maturity, as a consideration of the acquisition. The total consideration of the above amounted to HK$12,560,873,000. The acquisition was completed on January 29, 2008 when all the precedent conditions set out in the Initial agreement have been satisfied. Details of convertible note, loan note and share issued are set out in Notes 26, 27 and 29, respectively. As for the fair value of the mining and exploration rights acquired, since only 1.7% of the acquired area has been explored, the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. As a result, the fair value of the consideration paid, determined in accordance with HKFRS 2 "Share-based Payments" were used to account for the costs of the mining and exploration rights.

Upon the completion of the acquisition, Mr. Liu became a substantial shareholder of the Company through issuance of equity instruments (share and conversion options) as settlement of part of the purchase consideration.

On May 29, 2007, the Group entered into an agreement to acquire the exploration rights for a further 32,000 hectares of a coal mine in Khovd Province in Mongolia. The agreement was concluded with Shine Ocean International Limited ("SOIL"), a company which Mr. Liu has equity interest in. The exploration rights were initially acquired for a consideration of US$1. In addition, 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 price for the relevant ferrous material of the quality and type by way of 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 price for the relevant non-ferrous metal of the quality and type by way of loan note (with a 3% per annum coupon rate and 5-year maturity) as deferred payment.

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

The fees payable for the resources cannot be determined until commencement of exploration, accordingly, only US$1 was recorded in exploration and evaluation assets. The fee payable would be recognised when a reliable measurement of the resource can be obtained, with the corresponding increase in the exploration and evaluation assets.

The Group have not commenced any exploration activity on this coal mine as at March 31, 2008.

### 16. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM (TO) ASSOCIATES

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Cost of associates | | |
| – unlisted shares, at cost | 44,234 | 9,179 |
| Share of results | (2,298) | 67 |
| | 41,936 | 9,246 |

The Group's share of the aggregate amounts of the assets, liabilities and results of the associates are as follows:

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Assets | | |
| Non-current assets | 14,001 | – |
| Current assets | 69,389 | 24,143 |
| | 83,390 | 24,143 |
| Liabilities | | |
| Non-current liabilities | (40,003) | – |
| Current liabilities | (1,451) | (14,897) |
| Net assets | 41,936 | 9,246 |
| Group's share of result of associates for the year | (2,365) | 67 |

Details of the associates at March 31, 2008 and 2007 are as follows:

| Name | Place of incorporation | Particulars of issued/ registered share capital | Interest held | Principal activities |
|---|---|---|---|---|
| 亞聯公務機有限公司 | Mainland China | RMB100,000,000 | 43% | Provision of charter flight services and aircraft management |
| Upper Easy Enterprises Limited | British Virgin Islands | 5 shares of US$1.00 each | 20% | Investment holdings |
| eGuanxi (Cayman) Limited | Cayman Islands | 6,667,000 shares of US$1.00 each | 25% | Dormant |
| BAA Jet Management Limited # | Hong Kong | 1,000 share of HK$1.00 each | 40.1% | Provision of charter flight services |
| Moral Known Investments Limited # | British Virgin Islands | 3 shares of HK$1.00 each | 33.3% | Property development & land investment |
| Crown Frame Properties Limited (formerly known as Crestbright Properties Ltd.) # | British Virgin Islands | 100 shares of HK$1.00 each | 30% | Property development & land investment |
| Crestbright Investments Ltd. # | British Virgin Islands | 100 share of HK$1.00 each | 34% | Provision of environmental services |

\# Associate disposed of during the year

The capital commitment contracted but not provided for in respect of further capital investment in an associate amounted to HK$35.4 million as at March 31, 2007 (2008: Nil).

The amount due from an associate represents an advance granted to Upper Easy Enterprises Limited, of which Mr. Liu Cheng Lin, a substantial shareholder of the Company, owns the remaining interest. The amount is unsecured and interest free. The advance is expected to be settled within one year upon Upper Easy obtained external funding. The advance was made for the purpose of securing a mineral resource project.

The amounts due to associates are unsecured, interest free and repayable on demand.

**17. ASSETS HELD FOR SALE**

The assets held for sale comprise the Group's interests in three associates, namely Moral Known Investments Ltd, Crown Frame Properties Limited (formerly known as Crestbright Properties Ltd.) and Crestbright Investments Ltd. On May 31, 2007, the Group completed the disposals of the entire equity interests in these associates, together with the assignment of amounts due from associates, to Mr. Lo at a total consideration of HK$56,120,000 and recorded a gain on disposal of approximately HK$3,082,000. Mr. Lo is an executive director and substantial shareholder of the Company. The assets held for sale were stated at their carrying amounts at March 31, 2007.

## 18. INTEREST IN A JOINTLY CONTROLLED ENTITY/AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Cost of investment in a unlisted jointly controlled entity | – | – |
| Amount due from a jointly controlled entity | – | 48,569 |
| Less: loss allocated in excess of investment | – | (2) |
| | – | 48,567 |

The amount due from the jointly controlled entity was unsecured, interest free and repayable on demand.

Details of the jointly controlled entity at March 31, 2007 are as follows:

| Name | Place of incorporation | Particulars of issued share capital | Interest held | Principal activities |
|---|---|---|---|---|
| Everbest Business Limited ("Everbest") | British Virgin Islands | 2 shares of US$1.00 each | 50% | Aircraft charter |

On September 30, 2007, the Group disposed of all of its interest in Everbest at a consideration of approximately HK$134,668,000 which includes a settlement on the amount due from the jointly controlled entity, and recorded a gain of approximately HK$12,402,000 on disposal.

The following is an extract of the results and financial position of Everbest based on a set of unaudited accounts for the year ended March 31, 2007 prepared by management of the Group in accordance with those relevant accounting policies as set out in Note 3.

| | **Everbest 2008** *HK$'000* | **Group's attributable interests 2007** *HK$'000* |
|---|---|---|
| Assets | | |
| Non-current assets – prepayment for purchase of aircraft | 97,087 | 48,544 |
| Liabilities | | |
| Non-current liabilities – shareholders' loans | (97,087) | (48,544) |
| Current liabilities | (10) | (5) |
| | (97,097) | (48,549) |
| Net liabilities | (10) | (5) |
| Results | | |
| Income | – | – |
| Expenses | (4) | (2) |
| Loss for the year | (4) | (2) |
| Capital commitments | | |
| Contacted but not provided for in respect of the aircraft | 145,991 | 72,995 |

There are no contingent liabilities relating to the Group's interest in the jointly controlled entity and no contingent liabilities of the jointly controlled entity itself.

## 19. HELD-FOR-TRADING INVESTMENTS

| | **2008** *HK$'000* | **2007** *HK$'000* |
|---|---|---|
| Equity securities of companies listed in Hong Kong | 54,383 | 125,098 |

## 20. OTHER ASSETS

Other assets represent club memberships with indefinite useful life and with the rights to use the club facilities and are carried at cost less impairment loss. The club membership has been tested for impairment loss by the management with reference to its second hand market value at the balance date and no impairment loss was charged for both years.

## 21. PREPAYMENTS FOR EXPLORATION AND EVALUATION EXPENDITURE

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Road improvement and drilling equipment transport | 25,284 | – |
| Exploration drilling | 29,936 | 21,661 |
| Road design and environmental assessment | 48,538 | – |
| | 103,758 | 21,661 |

## 22. ACCOUNTS RECEIVABLE

The Group's credit terms on its trade customers mainly range from 30 to 90 days. The ageing analysis of accounts receivable of the Group is as follows:

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current to 30 days | 346 | 618 |
| 31 to 60 days | 410 | 174 |
| 61 to 90 days | 118 | 442 |
| Over 90 days | 869 | 841 |
| | 1,743 | 2,075 |

Included in the Group's accounts receivable balance are debtors with aggregate carrying amount of HK$987,000 (2007: HK$1,283,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

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

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 61 to 90 days | 118 | 442 |
| Over 90 days | 869 | 841 |
| Total | 987 | 1,283 |

No provision has been made for receivables in both years as there has not been a significant change incredit quality and the amounts are still considered recoverable.

### 23. CASH AND CASH EQUIVALENTS

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Bank balances and cash | 12,663 | 59,710 |
| Time deposits | 241,678 | 8,000 |
| | 254,341 | 67,710 |

The weighted average effective interest rate on short-term bank deposits was 2.07% (2007: 2.5%) per annum. The maturity days of the short-term time deposits was one week (2007: one week). Cash at bank earns interest at rates based on daily bank deposit rates.

### 24. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current to 30 days | 3,094 | 1,848 |
| 31 to 60 days | 621 | 720 |
| 61 to 90 days | 666 | 374 |
| Over 90 days | 1,927 | 4,941 |
| | 6,308 | 7,883 |

### 25. SHORT-TERM BANK LOANS

The bank loans bear interest at 0.65% (2007: 0.65%) over the HIBOR and are secured by the Group's investment properties. The weighted average effective interest rate for the year was 5.04% (2007: 5.21%) per annum. Mr. Lo has also provided a personal guarantee to the bank to the extent of all outstanding interests in connection with the bank loans.

### 26. CONVERTIBLE NOTES

On February 17, 2006, the Company issued 200,000,000 2.5% convertible notes at a total nominal value of HK$200 million ("2006 Convertible Note"). These convertible notes have a maturity period of three years from the issue date and can be convertible into 1 ordinary share of the Company at HK$0.02 each for every HK$0.18 convertible note at the holder's option. The 2006 Convertible Note was fully converted into ordinary shares during the financial year ended March 31, 2007.

On January 29, 2008, the Company issued 3% 2008 Convertible Note at a total nominal value of HK$142.5 million in connection with the acquisition set out in note 15. The 2008 Convertible Note has a maturity period of three years from the issue date and can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$0.285 convertible note at the holder's option. Interest of 3% per annum will be paid up until the settlement date.

The convertible notes contains two components, liability and equity elements. The equity element amounted to HK$3,529,218,000 and is presented in equity as part of the "capital reserve". The effective interest rate of the liability component for the 2008 Convertible Bond is 11.23% (2007: for the 2006 Convertible Note was 7.3%).

The movement of the liability component of the 2008 Convertible Note and 2006 Convertible Note for the year is set out below:

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| At beginning of the year | – | 175,528 |
| Initial recognition | 112,875 | – |
| Interest expense *(Note 7)* | 2,005 | 9,374 |
| Interest paid | – | (3,644) |
| Conversion during the year *(Note 29)* | – | (181,258) |
| At end of the year | 114,880 | – |

The fair value of the equity component of the 2008 Convertible Note is determined by using Binomial model. The inputs into the model were as follows:

| | 2008 |
|---|---|
| Share price | HK$7.33 |
| Expected volatility | 66% |
| Risks free rate | 1.68% |
| Expected dividend yield | 0% |

## 27. LOAN NOTE

The loan note with principal amount of HK$787.5 million is unsecured, interest bearing at 5% per annum and has a 3-year maturity period but can be repaid before the maturity date at the discretion of the Company. The effective interest rate of the loan note is 10.43%. The directors do not intend to repay the loan note within the next fiscal year and therefore have classified this loan note as non-current liability. Interests on loan note are payable at the maturity date or upon repayment whichever is earlier.

## 28. DEFERRED INCOME TAX LIABILITIES

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

| | Investment properties | Convertible notes |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| At April 1, 2006 | 43,721 | 3,495 |
| Credited to the income statement *(Note 9)* | (5,340) | – |
| Credited to equity | – | (3,495) |
| At March 31, 2007 and April 1, 2007 | 38,381 | – |
| Charged to the income statement *(Note 9)* | 34,032 | – |
| **At March 31, 2008** | 72,413 | – |

Deferred income tax assets are recognised for tax losses carried-forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. At March 31, 2008, unrecognised tax losses of the Group amounted to HK$105,943,000 (2007: HK$45,680,000). 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. These tax losses do not have an expiry date.

## 29. SHARE CAPITAL

Authorised and issued share capital

| | **March 31, 2008** | **March 31, 2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Authorised: | | |
| 15,000,000,000 ordinary shares of HK$0.02 each | 300,000 | 300,000 |

| | *Notes* | **Number of ordinary shares at HK$0.02 each** | **Amount** *HK$'000* |
|---|---|---|---|
| Issued and fully paid: | | | |
| At April 1, 2006 | | 1,486,861,261 | 29,737 |
| Issue of shares | | | |
| – Conversion of 2006 Convertible Note | *(i)* | 1,111,111,102 | 22,222 |
| – Exercise of share options | *(ii)* | 18,390,000 | 368 |
| At March 31, 2007 and April 1, 2007 | | 2,616,362,363 | 52,327 |
| Issue of shares | | | |
| – Acquisition of assets | *(iii)* | 1,125,000,000 | 22,500 |
| – Subscription of new shares | *(iii)* | 1,180,000,000 | 23,600 |
| – Placing of new shares | *(iii)* | 1,100,000,000 | 22,000 |
| – Exercise of share options | *(ii)* | 25,900,000 | 518 |
| **At March 31, 2008** | | 6,047,262,363 | 120,945 |

*Notes:*

(i) During the year ended March 31, 2007, convertible notes with a face value of HK$200,000,000 were converted into 1,111,111,102 ordinary shares of the Company, of which HK$22,222,222 was credited to share capital and the balance was credited to the share premium account.

(ii) During the year, share options to subscribe for 25,900,000 (2007: 18,390,000) shares were exercised, of which HK$518,000 (2007: HK$368,000) was credited to share capital and the balance of HK$31,445,000 (2007: HK$6,716,000) was credited to the share premium account.

(iii) On January 29, 2008, the following transactions were completed:

(a) the issuance of 1,125,000,000 new shares of the Company in connection to the acquisition set out in note 15 at HK$7.33 each, being the closing market price at completion date.

(b) subscriptions of 1,180,000,000 new shares of which (i) 780,000,000 shares issued to Golden Infinity Ltd. at HK$0.285 each; (ii) 200,000,000 shares issued to Chow Tai Fook Nominees Limited at HK$0.24 each and (iii) 200,000,000 shares issued to Dragon Noble Group Limited at HK$0.24 each; and

(c) placing of 1,100,000,000 new shares at HK$0.24 each.

**30. SHARE-BASED PAYMENT COMPENSATION**

**Equity-settled share option scheme**

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

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

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Weighted average exercise price per share *HK$* | Number of share options | Weighted average exercise price per share *HK$* | Number of share options |
| At beginning of the year | 0.69 | 25,763,444 | 0.1692 | 15,306,420 |
| Granted | 5.9373 | 5,440,000 | 0.69 | 30,100,000 |
| Exercised | 0.7128 | (25,900,000) | 0.2924 | (18,390,000) |
| Lapsed/cancelled | 4.5832 | (504,174) | 0.1695 | (1,252,976) |
| At end of the year | 6.1049 | 4,799,270 | 0.69 | 25,763,444 |

Options exercised during the year ended March 31, 2008 resulted in 25,900,000 ordinary shares (2007: 18,390,000) being issued at the weighted average exercise price of HK$0.7128 (2007: HK$0.2924) each. The related weighted average share price at the time of exercise was HK$8.269 (2007: HK$1.0797) per share.

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

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

| Date of grant | Exercise price | Exercise period | Number of shares subject to options 2008 | 2007 |
|---|---|---|---|---|
| | *HK$* | | | |
| 1-3-2005 | 0.1695 *(note)* | 1-3-2005 to 28-2-2012 | 4,670 | 8,844 |
| 15-2-2006 | 0.1636 | 15-2-2006 to 16-4-2009 | 4,600 | 4,600 |
| 8-2-2007 | 0.69 | 8-2-2007 to 7-2-2012 | – | 25,750,000 |
| 23-4-2007 | 4.62 | 23-4-2007 to 1-4-2009 | 2,100,000 | – |
| 26-3-2008 | 7.284 | 26-3-2008 to 25-3-2011 | 2,690,000 | – |
| | | | 4,799,270 | 25,763,444 |

*Note:*

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 March 31, 2006.

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

| | Date of grant of share option February 8, 2007 | April 23, 2007 | March 26, 2008 |
|---|---|---|---|
| Option value (at grant date) | HK$12,289,000 | HK$4,452,000 | HK$4,987,000 |
| Significant inputs into the valuation model: | | | |
| Exercise price at grant date | HK$0.69 | HK$4.62 | HK$7.28 |
| Share price at grant date | HK$0.69 | HK$4.62 | HK$7.22 |
| Expected volatility *(note)* | 80% | 62.28% | 62.01% |
| Risk-free interest rate | 4% | 3.92% | 1.155% |
| Expected life of options | 5 years | 1.94 years | 2 years |
| Expected dividend yield | N/A | N/A | N/A |

*Note:*

The expected volatility is measured at the standard deviation of 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 Group recognised the total expense of HK$9,439,000 for the year ended March 31, 2008 (2007: HK$12,289,000) in relation to share options granted by the Company.

**31. FINANCIAL GUARANTEES**

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Guarantees in respect of credit facilities granted to an associates | 3,340 | 1,710 |

The extent of such facilities utilized by the associate at the balance sheet date was approximately HK$725,000 (2007: HK$395,000).

**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 March 31, 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Not later than one year | 9,821 | 2,142 |
| Later than one year and not later than five years | 9,318 | 3,389 |
| | 19,139 | 5,531 |

**(b) Future minimum rental payments receivable**

The Group's operating leases are for terms of 1 to 5 years. At March 31, 2008, the future minimum rental payments receivable under non-cancellable operating leases are as follows:

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Not later than one year | 23,907 | 16,008 |
| Later than one year and not later than five years | 29,735 | 8,053 |
| | 53,642 | 24,061 |

The investments properties were subsequently disposed of on July 15, 2008 as set out in Note 13.

**(c) Capital commitment**

As at March 31, 2008, the Group had capital commitments contracted for but not provided for amounted to approximately HK$332,050,000 (2007: nil).

### 33. DISPOSAL OF A SUBSIDIARY

During 2007, Business Aviation Asia Limited, an indirect wholly owned subsidiary of the Company, disposed of its 59.9% interest in the issued share capital of BAA Jet Management Limited to an independent party at a consideration of HK$599.

| | **2007** |
|---|---|
| | *HK$'000* |
| Net assets disposed of: | |
| Property, plant and equipment *(Note 12)* | 956 |
| Accounts receivable | 2,965 |
| Other receivable, prepayments and deposits | 3,910 |
| Bank balances and cash | 7,635 |
| Accounts payable, other payables and accruals | (18,169) |
| | (2,703) |
| Gain on disposal of a subsidiary | 2,703 |
| | – |
| Satisfied by: | |
| Consideration settled in cash | – |
| Cash outflow on disposal of a subsidiary | 7,635 |

### 34. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into an agreement for the acquisition of mining and exploration rights to the value of HK$12,560,873,000. The consideration of which was settled in shares, convertible notes and loan note. Further details of the acquisition are set out in Note 15 above.

### 35. BALANCE SHEET OF THE COMPANY

**Balance sheet**

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Total assets | 13,797,617 | 556,487 |
| Total liabilities | (893,093) | (68,313) |
| Net assets | 12,904,524 | 488,174 |
| Financed by: | | |
| Equity | | |
| Capital and reserves attributable to the Company's equity holders | | |
| Share capital | 120,945 | 52,327 |
| Reserves | 12,783,579 | 435,847 |
| | 12,904,524 | 488,174 |

**Reserves**

| | Share premium *HK$'000* | Contributed surplus *HK$'000* | Capital reserve *HK$'000* | Share options reserve *HK$'000* | Accumulated losses *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| Balance at April 1, 2006 | 158,856 | 199,594 | 17,711 | 1,707 | (64,202) | 313,666 |
| Loss and total recognised expense for the year | – | – | – | – | (57,648) | (57,648) |
| Issue of shares | | | | | | |
| – Conversion of convertible notes | 180,242 | – | (21,206) | – | – | 159,036 |
| – Reversal of deferred tax on equity component of convertible notes | – | – | 3,495 | – | – | 3,495 |
| – Exercise of share options | 6,716 | – | – | (1,707) | – | 5,009 |
| Share-based compensation expenses | – | – | – | 12,289 | – | 12,289 |
| Balance at March 31, 2007 and April 1, 2007 | 345,814 | 199,594 | – | 12,289 | (121,850) | 435,847 |
| Profit and total recognised income for the year | – | – | – | – | 35,987 | 35,987 |
| Share-based compensation expenses | – | – | – | 9,439 | – | 9,439 |
| Convertible note – equity component | – | – | 3,529,218 | – | – | 3,529,218 |
| Issue of shares | | | | | | |
| – Acquisition of asset | 8,223,750 | – | – | – | – | 8,223,750 |
| – Share subscription | 294,700 | – | – | – | – | 294,700 |
| – Placing of shares | 242,000 | – | – | – | – | 242,000 |
| – Share options | 31,445 | – | – | (13,503) | – | 17,942 |
| Share issue expenses | (5,304) | – | – | – | – | (5,304) |
| Balance at March 31, 2008 | 9,132,405 | 199,594 | 3,529,218 | 8,225 | (85,863) | 12,783,579 |

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

**36. RELATED PARTY TRANSACTIONS**

In addition to those disclosed elsewhere in the consolidated financial statements significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

**(a) Sales of services**

| | 2008 *HK$'000* | 2007 *HK$'000* |
|---|---|---|
| Associates | 908 | 6,776 |

**(b) Service rendered**

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Associates | 20,384 | 8,672 |

**(c) Key management compensation**

| | **2008** | **2007** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Basic salaries, other allowances and benefits in kind | 14,287 | 5,339 |
| Share based payments | 4,597 | 10,819 |
| Contributions to pension schemes | 24 | 24 |
| | 18,908 | 16,182 |

**37. PARTICULARS OF PRINCIPAL SUBSIDIARIES**

Details of the Group's principal subsidiaries at March 31, 2008 and March 31, 2007:

| Name | Place of incorporation | Particulars of issued share capital | Effective interest held | Principal activities |
|---|---|---|---|---|
| Business Aviation Asia Limited | Hong Kong | 1 share of HK$1.00 | 100% | Investment holding |
| Cyber Network Technology Limited* | British Virgin Islands | 1 share of US$1.00 | 100% | Investment holding |
| Gamerian Limited* | British Virgin Islands | 1 share of US$1.00 | 100% | Investment holding |
| Glory Key Investments Ltd. | British Virgin Islands | 1 share of US$1.00 | 100% | Investment holding |
| Jadesails Investments Limited | Hong Kong | 10,000 shares of HK$1.00 each | 100% | Property investment |
| Mongolia Energy Corporation (Greater China) Ltd. (formerly known as New World CyberBase (Greater China) Limited)* | Hong Kong | 2 shares of HK$1.00 each | 100% | Management services |
| Mongolia Energy Corporation Services Limited (formerly known as New World CyberBase Services Limited)* | Hong Kong | 2 shares of HK$1.00 each | 100% | Provision of secretarial and nominee services |
| Quinway Company Limited | Hong Kong | 10,000 shares of HK$1.00 each | 100% | Property investment |
| MoEnCo LLC# | Mongolia | 10,000 shares of US$1.00 each | 100% | Minerals exploration and mining activities |

* Subsidiaries directly held by the Company.

\# Subsidiary which was incorporated during 2007.

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.

**38. SUBSEQUENT EVENTS**

Other than that was disclosed in Note 13, the subscription of HK$2 billion zero coupon convertible note by Chow Tai Fook Nominee Limited was completed on April 30, 2008. The net proceeds of the convertible note is intended to assist the Group in the funding of the construction of coking facilities for the production at 2 to 3 million tonnes of coke per annum. The Group has the discretion to apply the net proceeds of the convertible note for the development of other energy and resources projects.

The Group has awarded two road works contracts on July 7, 2008 worth RMB866,085,861. These contracts relate to foundation construction of the Khushuut Road from the Group's coal mine areas in Khushuut, western Mongolia to the border crossing with Xinjiang, PRC. The contract sum will be financed by internal resources.

## C. BUSINESS AND FINANCIAL DEVELOPMENT OF THE GROUP

### Energy and related resources business

During the financial year ended on March 31, 2008, the Group was actively focused on building its energy and related resources business in a professional and realistic manner:

- The Group completed two acquisitions of some 66,000 hectares of mining and exploration concessions in western Mongolia for coal, ferrous and non-ferrous metals resources.

- The Group explored some 600 hectares of the 66,000 hectares mine areas at a location called "Khushuut" in Khovd Province, western Mongolia and demonstrated approximately 460 million tonnes of coal resources with 181 million tonnes of coking coal resources. Within these resources and following further analytical work, 136 million tonnes of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC") in-place resources was demonstrated . The exploration work and analytical work continues with the aim to demonstrate further coal resources.

- The Group is finalizing its mine plans for the Khushuut mine areas for the commencement of an initial 3 million tonnes per annum mining operation concentrating on coking coal. This is scheduled to commence by the second quarter of 2009. The Group's business plan is initially to supply coking coal to Xinjiang, PRC, which is in short local supply and being imported from other areas of the PRC. The mining operations are anticipated to expand over time with further exploration.

- The Group is commencing the upgrading, with related building works, of the foundation for the "Khushuut Road". This is a 340 km road from the Khushuut mine areas to Xinjiang, PRC. The foundation works will allow 60 metric tonnes trucks to run at a speed of up to 60 km per hour and lower the overall productions costs for the commencement of mining operations and beyond.

- The Group, aside from exploration for coal at Khushuut, has commenced geological reconnaissances for coal, ferrous and nonferrous metals resources exploration in other prospective areas.

- The Group has expanded into oil and gas opportunities by acquiring 20% benefits of 487,509 hectares for oil and gas exploratory concessions in western Mongolia. The Group has commenced cooperation with CNPC Daqing Petroleum on the feasibility study of the project.

- The Group has expanded into opportunities in Xinjiang, PRC by entering a conditional acquisition of a 20% benefit in a multimetals project located in Ruoqiang County, Xinjiang, PRC with explored tungsten and tin resources.

**The Group's projects**

As set out above, the Group has, during the financial year ended on March 31, 2008, acquired title to some 66,000 hectares of concession areas in western Mongolia for coal, ferrous and non-ferrous metals resources. In fact, as at the date hereof, these areas have expanded fivefold to some 330,000 hectares for coal, ferrous and non-ferrous metals resources.

The Group further announced on March 5, 2008 that it entered into agreement to acquire 20% benefit of the resources under an exploration concession areas located in Ruoqiang County, Xinjiang Province PRC. The preliminary exploration work in 2007 over the exploration concession area has demonstrated 235,600 tons of tungsten trioxide ($WO_3$) resources and 49,000 tons of tin (Sn) resources. The completion is expected to take place prior to December 31, 2008.

Up to present, the Group has also acquiring minority interests under various projects. Please refer to recent announcements of MEC and information on MEC's website at www.mongolia-energy.com.

**Financing the Group's mining operations**

The Group issued to Chow Tai Fook Nominee Limited a HK$2 billion zero coupon convertible note due April 2011 to finance the Group's mining operations, including for the construction of coking facilities, which is at the general construction planning stage. The Group also disposed of its real estate investment at the Bank of America Tower for HK$540 million.

**The Group's real estate investment and disposal**

Apart from the energy and resources business, the Group's investment property at the ground floor and basement of the Bank of America Tower contributed a stable rental income to the Group during the financial year. The Group announced the disposal of the property in April 2008 for HK$540 million. This disposal was completed in July 2008.

**Private jet charter services**

The Group's Gulfstream G200 private jet is used to provide private jet charter services. The Group believed that with the economic growth in China, demands for private jet charter services should continue to increase. Thus, the Group acquired a new Falcon 900EX model aircraft during the financial year for a consideration of HK$295.6 million. This new Falcon aircraft is anticipated to be delivered by late 2009.

**The Trading and Financial Position of the Group**

The unaudited interim results of the Group for the six months ended September 30, 2008 is expected to record a loss as compared to a profit for the corresponding period ended September 30, 2007. MEC disposed of its investment property in the Bank of America Tower as set out under the announcement of July 15, 2008. There was no income from disposal to buffer the finance costs in relation to the energy and related resources businesses of the Group during the six months ended September 30, 2008. As the Group's unaudited interim results for the six months ended September 30, 2008 have not yet been finalized, such information is only based on preliminary assessment on the unaudited management accounts of the Group and information currently available.

## D. INDEBTEDNESS STATEMENT OF THE GROUP

As at the close of business on August 31, 2008, 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 outstanding borrowings:

(i) unsecured convertible notes with outstanding principal amount of approximately HK$142.5 million and maturity date on January 29, 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 any part of the principal outstanding amount of the note into ordinary shares of the Company at a conversion price of HK$0.285 per share.

(ii) unsecured loan note with outstanding principal amount of approximately HK$383.5 million and maturity date on January 29, 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 of April 30, 2011. The note holder shall have the right to convert on any business day from the issue date to the maturity date, the whole or any part of the principal outstanding amount of the note into ordinary shares of the Company at a conversion price of HK$7.3 per share.

As at the close of business on August 31, 2008, the Group had contingent liabilities 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 May 29, 2007 and May 5, 2008 entered into by 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 acquisitions were completed upon the satisfaction of the conditions precedent as set out in the agreements. The "Pay as demonstrated" resources fees will be paid as follows:

(i) Coal resources fees: HK$2.00 per tonne

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

(iii) 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 of the Company dated June 25, 2007 and May 5, 2008. As at the Latest Practicable Date, none of the above loan notes had been issued.

As at the close of business on August 31, 2008, the Group had financial guarantees in respect of credit facilities granted to an associate to the extent of approximately HK$3,340,000. The amount utilised at August 31, 2008 was approximately HK$484,876.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on August 31, 2008, the Group did not have other 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.

## E. WORKING CAPITAL

The Directors are of the opinion that, following the Closing and taking into account the present internal financial resources, the Group will have sufficient working capital for its requirements in next 12 months from the Latest Practicable Date.

## F. MATERIAL ADVERSE CHANGES

Apart from Company's announcement of October 27, 2008, the Directors are not aware of any material adverse, change in the Group's financial or trading position and prospects since March 31, 2008, the date to which the latest published audited consolidated accounts of the Group were made up.

## 1. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP IMMEDIATELY AFTER THE COMPLETION

### A. Introduction

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to illustrate the effects of the proposed acquisition of the Relevant Interest under the Relevant Agreements by the Company. The Consideration by the Company is HK$1 billion including the issue of a maximum of 100,000,000 new Shares.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group which has been prepared in accordance with Rule 4.29 of the Listing Rule is for the purpose of illustrating the effects as if the Transaction had taken place on March 31, 2008.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at March 31, 2008, which has been extracted from the annual report of the Company for the financial year ended March 31, 2008 with adjustments to reflect the effects as if the acquisition of the Relevant Interest under the Relevant Agreements by the Company had been completed on March 31, 2008.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared to provide information on the Enlarged Group as a result of completion of the Transaction. As it is prepared for illustrative purpose only, it does not purport to represent the financial position of the Enlarged Group on the completion of the Transaction or any future date.

### B. Unaudited pro forma statement of assets and liabilities of the Enlarged Group immediately after the completion of the Transaction

The following is an illustrative and unaudited pro forma statement of assets and liabilities of the Enlarged Group which has been prepared on the basis as set out in the notes below for the purposes of illustrating the effect of the Transaction as if it has taken place on March 31, 2008.

The unaudited pro forma statement of assets and liabilities has been prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group, had the Transaction been completed as at March 31, 2008 or at any future date.

| | **The Group as at March 31, 2008** | **Pro forma Adjustments** | | **Pro forma Enlarged Group** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *Note* | *HK$'000* |
| | *(Note 1)* | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 213,870 | | | 213,870 |
| Investment properties | 540,000 | | | 540,000 |
| Intangible assets | 380 | | | 380 |
| Exploration and evaluation assets | 12,712,228 | | | 12,712,228 |
| Interests in associates | 41,936 | | *5* | 41,936 |
| Other asset | 1,150 | | | 1,150 |
| Available-for-sale financial asset | – | 1,000,000 | *2* | 1,000,000 |
| Prepayments for exploration and evaluation expenditure | 103,758 | | | 103,758 |
| Deposits for property, plant and equipment | 78,233 | | | 78,233 |
| | 13,691,555 | | | 14,691,555 |
| **Current assets** | | | | |
| Accounts receivable | 1,743 | | | 1,743 |
| Other receivables, prepayments and deposits | 16,185 | | | 16,185 |
| Held-for-trading investments | 54,383 | | | 54,383 |
| Amount due from an associate | 200,000 | (200,000) | *3* | – |
| Cash and cash equivalents | 254,341 | (114,000) | *3* | 140,341 |
| Total current assets | 526,652 | | | 212,652 |
| **Current liabilities** | | | | |
| Accounts payable | 6,308 | | | 6,308 |
| Other payables and accruals | 38,164 | | | 38,164 |
| Amount due to an associate | 8,898 | | | 8,898 |
| Short-term bank loans | 197,900 | | | 197,900 |
| Tax payable | 301 | | | 301 |
| | 251,571 | | | 251,571 |
| **Net current assets/(liabilities)** | 275,081 | | | (38,919) |

| | The Group as at March 31, 2008 HK$'000 (Note 1) | Pro forma Adjustments HK$'000 | Note | Pro forma Enlarged Group HK$'000 |
|---|---|---|---|---|
| **Total assets less current liabilities** | 13,966,636 | | | 14,652,636 |
| **Non-current liabilities** | | | | |
| Convertible notes | 114,880 | | | 114,880 |
| Loan note | 684,221 | | | 684,221 |
| Deferred income tax liabilities | 72,413 | | | 72,413 |
| | 871,514 | | | 871,514 |
| **Net assets** | 13,095,122 | | | 13,781,122 |

Notes to the unaudited pro forma statement of assets and liabilities of the Enlarged Group:

1. The amounts as at March 31, 2008 were based on the audited consolidated balance sheet of the Group as at March 31, 2008, as extracted from the audited financial statements of the Group for the year ended March 31, 2008, which is set out in the Company's 2008 published annual report and in the Appendix I to this circular.

2. For the purpose of the pro forma financial information, the fair value of the Relevant Interest acquired pursuant to the Transaction is measured by reference to the fair value of the consideration for the Relevant Interest. Pursuant to the Relevant Agreements, the fair value of the consideration is HK$1,000,000,000, which comprises (i) HK$200 million to Mr. Liu as service fee for procurement of the Transaction; (ii) RMB100 million (or HK$114 million (Note 6)) in the form of cash as reimbursement to Mr. Liu for the purpose of development and commercial exploitation of the Resources; and (iii) the remaining HK$686 million (Note 6) in the form of shares of the Company to be allotted at the closing market price as at Closing date, subject to a maximum cap of 100 million Shares.

   The fair value of the Consideration Shares as at the date of Closing may be different from their fair values used in the preparation of the unaudited pro forma statement of assets and liabilities as above if the closing market price of the Company's shares as at Closing is lower than HK$6.86 and there is change in exchange rate used for translating Renminbi to or from Hong Kong dollar. As such, the actual financial position of the Group resulting from the Transaction may be different from the financial position shown in this Appendix.

3. The adjustment to the amount due from an associate of HK$200,000,000 represents payment of the service fee to Mr. Liu as set out in note 2(i) above. The service fee will be satisfied by transferring to Mr. Liu the advance of HK$200 million previously made to an associate under a joint venture agreement dated August 31, 2007. Such transfer is also considered as a deemed refund to the Company. The adjustment to cash and cash equivalent of HK$114,000,000 represents the cash reimbursement of RMB100 million to Mr. Liu as set out in note 2 above.

4. No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to March 31, 2008, including (i) the completion of the subscription of HK$2 billion zero coupon convertible note by Chow Tai Fook Nominee Limited; (ii) the repayment of short term bank loan of approximately HK$197,900,000 in May 2008; (iii) the completion of disposal of the Group's investment properties at a consideration of HK$540 million; (iv) the partial early redemption of loan note of HK$404,000,000 in total; and (v) the award of two road works contracts relating to the construction of the Khushuut Road from coal mine areas in Khushuut, western Mongolia to the border crossing with Xinjiang, China, worth RMB866,085,861.

5. The unwinding of the Joint Venture with investment cost of US$1.00.

6. For the purpose of the unaudited pro forma financial information, the amounts in US$ have been converted to HK$ at HK$/US$ exchange rate of 7.78/1.00 and the amounts in RMB have been converted to HK$ at HK$/RMB exchange rate of 1.14/1.00.

## 2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

29th Floor
Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

October 31, 2008

The Board of Directors
Mongolia Energy Corporation Limited

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the "Statement") of Mongolia Energy Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial acquisition in Xinjiang, the People's Republic of China relating to copper, tin and multi-metal resources with explored tungsten and tin resources (the "Assets") by the Company from Mr. Liu Cheng Lin might have affected the assets and liabilities of the Group presented, for inclusion in Appendix II to the circular of the Company dated October 31, 2008 (the "Circular"). The basis of preparation of the Statement is set out on pages 90 to 93 to the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Statement with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Statement is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at March 31, 2008 or at any future date.

**Opinion**

In our opinion:

(a) the Statement has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
**RSM Nelson Wheeler**
*Certified Public Accountants*
Hong Kong

# VALUATION REPORT

# VALUATION OF
# THE KEKE KAERDE TUNGSTEN-TIN PROJECT

**Prepared by**

**Greater China Appraisal Limited**

October 31, 2008

The Directors
Mongolia Energy Corporation Limited
Room 1502-5
New World Tower 1
16-18 Queen's Road Central
Hong Kong

Dear Sirs,

In accordance with the instructions from Mongolia Energy Corporation Limited (the "Company"), we have completed a valuation of fair value of the 100% controlling and non-marketable ownership of the exploration right (the "Mineral Property"), in connection with the exploration, development, extraction or processing minerals, mainly tungsten and tin, located in the Ruoqiang County of the Ba Yin Guo Leng Mongolia Autonomous State, Xinjiang, People's Republic of China (the "PRC"). Unless otherwise stated, terms used in this valuation report have the same meanings as those defined in the circular to the shareholders dated October 31, 2008 (the "Circular") of the Company.

We confirm that we have made relevant enquiries and obtained such information as we consider necessary for the purpose of providing our opinion of the fair value of the Mineral Property as at August 18, 2008 (the "Valuation Date"). We understand that this valuation will be used as a reference for the Transaction in relation to the Company, details of which are set out in the letter from the Board (the "Letter from the Board") in the Circular, of which this letter forms part. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purposes.

## INTRODUCTION

The Mining Property principally contains Keke-Kaerde tungsten ($WO_3$) and tin (Sn) deposit, located in the Ruoqiang County of the Ba Yin Guo Leng Mongolia Autonomous State, which is referred as the Xinjiang Uygur Autonomous Region in the Technical Report issued by John T. Boyd Company (the "Technical Report"). According to the Technical Report dated August 21, 2008, there are approximately 235,000 tonnes of tungsten and 49,000 tonnes of tin reserves in situ. There are 11 defined ore bodies, which presented as follows:

| | **Tungsten** | | | **Tin** | | |
|---|---|---|---|---|---|---|
| **Class** | **Ore Tonnes** | **$WO_3$** | | **Ore Tonnes** | **Sn** | |
| | *(000)* | *(%)* | *(Tonnes)* | *(000)* | *(%)* | *(Tonnes)* |
| 122b* | 3,406 | 1.09 | 37,024 | 3,406 | 0.33 | 11,274 |
| 333 | 5,327 | 1.35 | 72,139 | 3,599 | 0.40 | 14,234 |
| 334 | 14,422 | 0.88 | 126,328 | 6,596 | 0.36 | 23,889 |
| Total | 23,155 | 1.02 | 235,491 | 13,601 | 0.36 | 49,397 |

** Boyd would classify this as "322b"*

The above identified resources were concluded in accordance with the Chinese resource reporting standards. Under the Australasian Code for Mineral Resources and Ore Reserves Reporting of Exploration Results (the JORC Code), 122b material would be placed in the Indicated Resources category and 333 material would be placed in the Inferred Resources category under the JORC Code. With reference to Boyd's opinion, 334 material could be upgraded to meet the JORC Code after further exploration work in the known deposit area. Boyd also commented that the Keke-Kaerde deposit as "attractive exploration project with the potential to become an excellent producer of tungsten and tin".

**Application of Tungsten and Tin**

Tungsten is primarily used in the manufacturing of hard metals, which accounted for an estimated 67% if the world's consumption in 2006. Other consumptions include mill products, steel and super alloys, chemicals and surface treatments.

Tin is widely used in various industries, including packaging, electrical, construction and transportation. It is also commonly found in cans and containers.

**Law and Regulation**

The Mineral Property is under the administration of the Ba Yin Guo Leng Mongolia Autonomous State in Xinjiang and hence subject to its law and regulations.

**Geology and Resources**

The Keke-Kaerde deposit is located in the Ruoqiang County of the Ba Yin Guo Leng Mongolia Autonomous State of the PRC and centred on N37° 57.6' and E88° 56.5'. With reference to the Technical Report, the area is characterised by rugged, mountainous terrain, sparse vegetation and high altitude.

**BASIS OF VALUATION**

We have valued the Mineral Property on the basis of fair value.

**Fair Value**

According to Hong Kong Financial Reporting Standard, fair value is the amount for which an asset could be exchanged, or a fair value liability settled, between knowledgeable and willing parties in an arm's length transaction.

For the purpose of this valuation, the term fair value is similar and/or interchangeable with the valuation standards or definitions below and will be used throughout this valuation report.

**Market Value**

According to The Hong Kong Business Valuation Forum - Business Valuation Standards, market value is defined as the estimated amount for which an asset (a property) should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

**Fair Market Value**

The International Valuation Glossary defines fair market value as the amount at which property would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Trade-related Business Assets and Business Enterprise (First Edition 2004) published by the Hong Kong Institute of Surveyors and the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum. Both are generally accepted valuation standards followed by relevant professional practitioners in Hong Kong. These standards contain detailed guidelines on the basis and valuation approaches in valuing assets used in the operation of a trade or business and business enterprises.

Mineral property is defined in Canadian Institute of Mining, Metallurgy and Petroleum on Valuation of Mineral Properties (CIMVAL) – Standard and Guidelines for Valuation of Mineral Property as below:

*"Mineral property refers to any right, title or interest to property held or acquired in connection with the exploration, development, extraction or processing of minerals which may be located on or under the surface of such property, together with all fixed plant, equipment, and infrastructure owned or acquired for the exploration, development, extraction and processing of minerals in connection with such properties. Such properties shall include, but not be limited to, real property, unpatented mining claims, prospecting permits, prospecting licenses, reconnaissance permits, reconnaissance licenses, exploration permits, exploration licenses, development permits, development licenses, mining licenses, mining leases, leasehold patents, crown grants, licenses of occupation, patented mining claims, and royalty interests."*

**Premise of Value**

Although valuation is a range concept, current valuation theory suggests that there are three basic "levels" of value applicable to a business, business interest or project. The levels of value are respectively:

– **Controlling interest**: the value of the enterprise as a whole

– **As if freely tradable minority interest**: the value of a minority interest, lacking control, but enjoying the benefit of market liquidity

– **Non-marketable minority interest**: the value of a minority interest, lacking both control and market liquidity

This valuation is prepared on a controlling and non-marketable basis.

## PRINCIPAL SOURCES OF INFORMATION

In completing this valuation, we have relied heavily on information (sourced by technical experts and/or other accredited specialist(s) specific to the mining industry) provided by the Company and its management.

## ECONOMIC OUTLOOK AND INDUSTRY ANALYSIS

In conjunction with the preparation of this valuation opinion, we have reviewed and analyzed the current economic conditions in the PRC and how the tungsten and tin industry may be impacted.

**China Economy Outlook**

The Chinese economy attained double digit growth rates of 10.7% and 11.9% in 2006 and 2007 respectively. In 2007, the GDP growth rate of 11.9% was contributed by 4.4% points of domestic consumption, 4.3% points of investment and 2.7% points of net exports[1]. However, the real GDP of China is forecast to slow slightly but will remain impressive, easing gradually to 9.8% in 2008, and is forecasted as follows:

| | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|
| | *Actual* | *Forecast* | *Forecast* | *Forecast* |
| Real GDP growth (%) | 11.9 | 9.8 | 9.0 | 9.2 |
| Consumer price inflation (%) | 4.8 | 6.5 | 4.3 | 4.0 |
| Commercial bank prime rate (%) | 7.5 | 7.9 | 7.9 | 8.1 |
| Exchange rate RMB:US$ (average) | 7.61 | 6.93 | 6.61 | 6.38 |

*Figure extracted from the Economist*[2]

1 Shanghai Daily, January 31, 2008

2 http://www.economist.com/countries/China/profile.cfm?folder=Profile%2DEconomic%20Data

Due to the weakened global demand for exports and imposition of government measures to curb inflation and prevent overheating of the economy, the economic expansion of China is expected to cool. Further, in order to mitigate the uncertainties of the global and financial markets, the Chinese government increases the interest rate and initiates the currency appreciation.

According to the National Bureau of Statistics, China's GDP grew 10.4% in the first half of 2008. It is expected that in 2008 the government will continue to boost the contribution of private consumption to overall growth. Government spending is expected to increase as the government focuses on development needs in rural areas and in central and western provinces in an attempt to prevent widening inequalities of economic development within the country. Service industries have been boosted during the year by the Olympic Games in Beijing and will be further enhanced in the future by the 2010 Shanghai World Expo. Having said the above, investment spending growth will slow gradually from 2007 though, partly owing to higher interest rates.

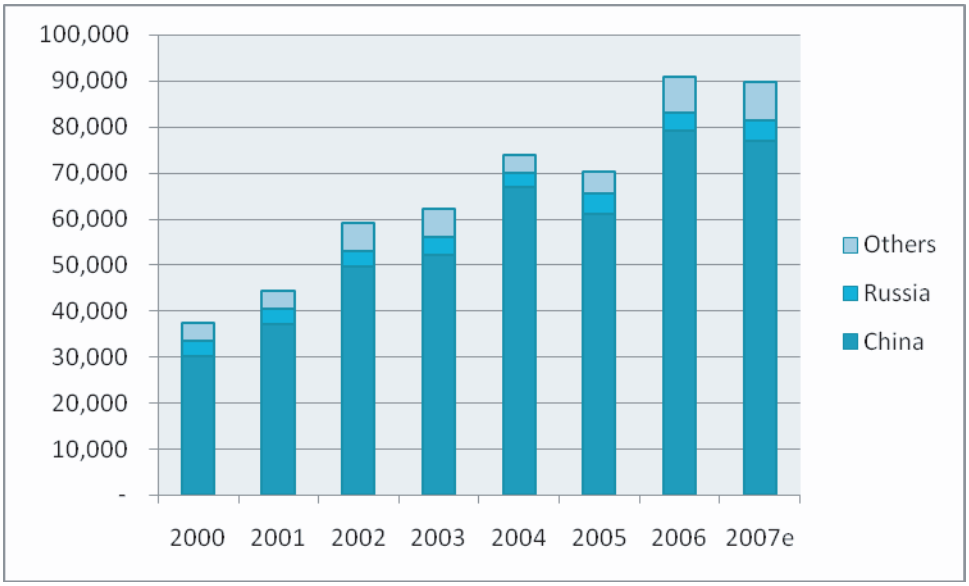
In view of the above factors, the Chinese economy is forecast to have a GDP growth rate of 9.0% and an inflation rate of 6.5% or even higher in 2008, heading toward stabilisation in future years. As the Chinese economy grows stably, the domestic demand of minerals like tungsten and tin would sustain further growth in the near future.

**Tungsten Industry Outlook**

The tungsten industry has been through dramatic changes in the past decades. The prices of tungsten remained extremely low during the 1990s and began driven by rapid increase in domestic demand of tungsten products in China. According to the Conceptual Overview Keke-Kaerde Tungsten-Tin Deposit by John T. Boyd Company dated August 18, 2008 (the "Conceptual Overview"), the international price for tungsten over the past year (ending mid-May 2008) have averaged just over RMB150,000 per tonne.

China has been the dominated supplier of tungsten production (Figure 1). In 2006, around 87% of the world's tungsten was produced by China, followed by Russia, which produced around 4% of the world's tungsten production. While tungsten resources are geographically widespread, China ranks the first in the world in terms of tungsten resources and has some of the largest deposits.

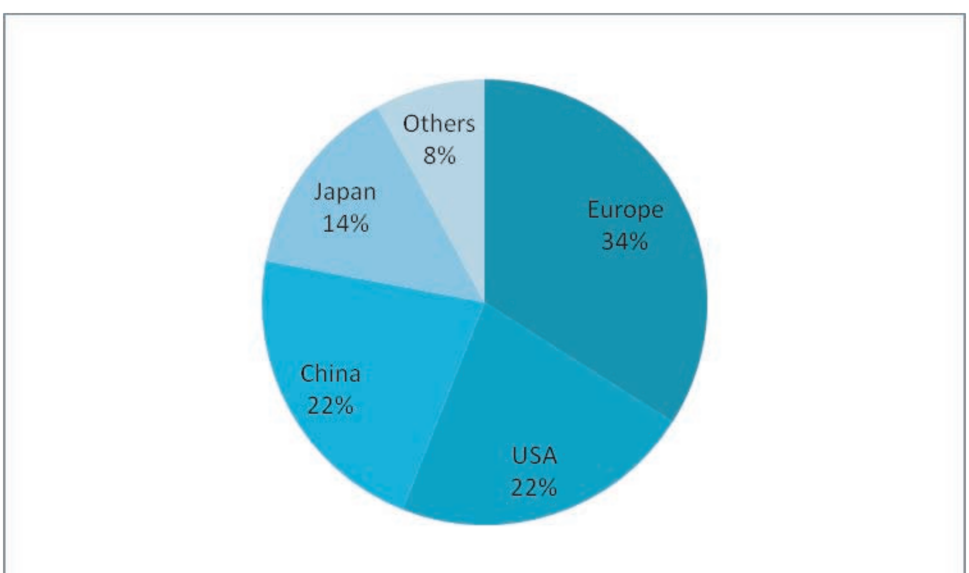
**Figure 1 – World Tungsten Production[3]**




*Source: U.S. Geological Survey, Mineral Commodity Summaries*

China has become of the world's largest tungsten consumer, resulting from the rapid growth in China's economy during the past decade. In 2006, it has consumed 22% of the global primary tungsten consumption, which approximately amounted to 11,220 tonnes (Figure 2). Currently, the global consumption of Tungsten is estimated to 80,000 tonnes per year, with around 75% of the consumption coming from mines and 25% from recycled material. It is also believed that annual growth for tungsten demand would be 8% to 10%.[4] Due to the increasing global and domestic demand, the Chinese Government has been, and expected to continue to limit tungsten production and exports to conserve its resources. All these factors are likely to rocket the market prices of tungsten.

**Figure 2 – Global Consumption of Primary Tungsten**




*Source: Galway Resources*

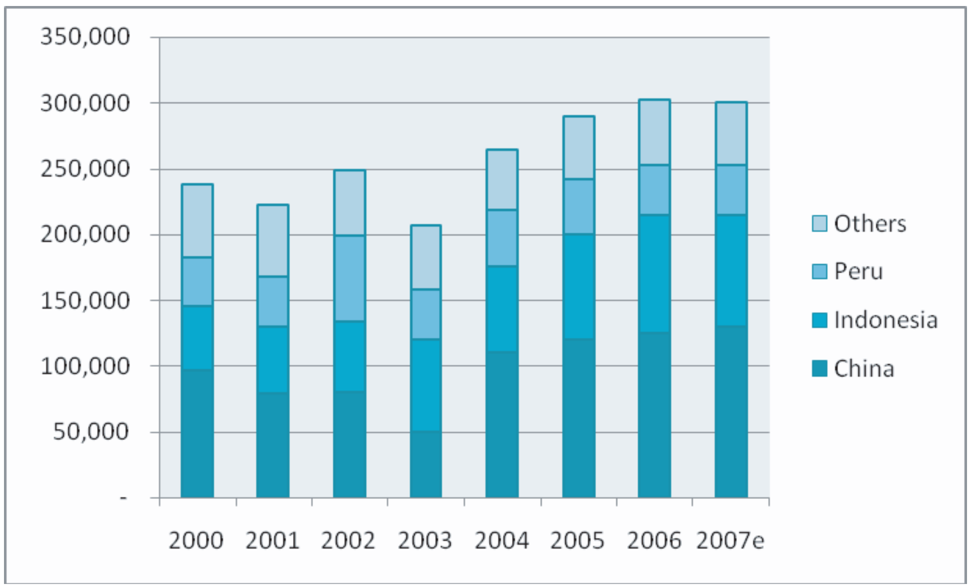
3 Figures for 2007 are estimated amount only.

4 http://www.galwayresources.com/s/TungstenInfo.asp

**Tin Industry Outlook**

Similar to tungsten, China is also the primary producer of tin, followed by Indonesia and Peru. In 2006, the tin production of China, Indonesia and Peru contributed 41%, 30% and 13% of the world's production respectively (Figure 3).

**Figure 3 – World Tin Production[5]**

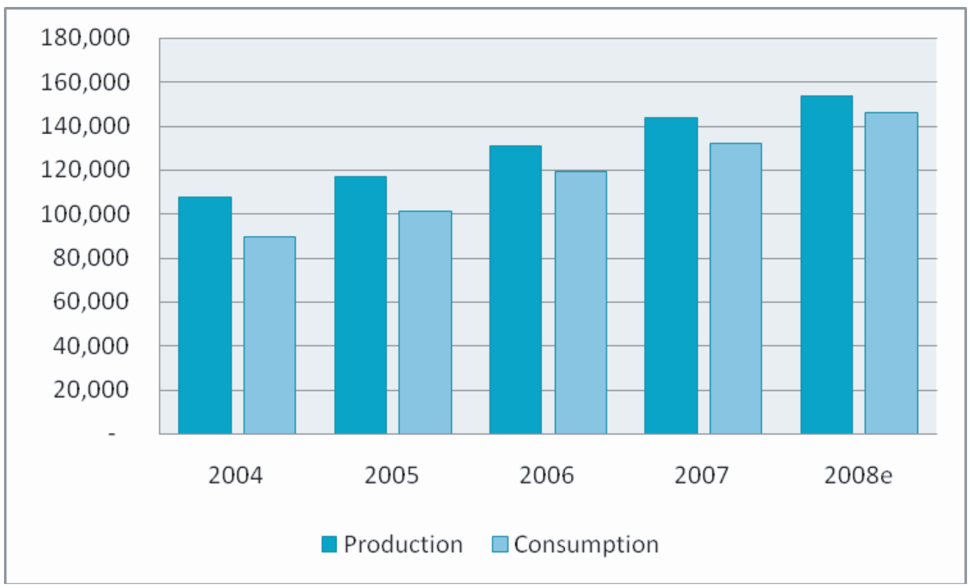



*Source: U.S. Geological Survey, Mineral Commodity Summaries*

[5] Figures for 2007 are estimated amount only.

The tin prices, with reference to the Conceptual Overview, have averaged RMB120,000 over the past 12-month period ending mid-May 2008. Significant rises in tin prices has noted in the past year and was driven by the increase domestic demand of tin, unstable supply of tin from Indonesia and government policy to restrict tin export. Tin production in China has rose by 33%, whereas tin consumption increased by 47% from 2004 to 2007 (Figure 4). In order to control exports to cope with the strong domestic demand, the Chinese government imposes a 10% export duty on tin from January 2008.

**Figure 4 – Tin Production and Consumption in China[6]**




*Source: CAN, the Customs and Antaike*

In accordance with the Chinese government's policies on stricter controls on illegal mining and excess exploration, strong escalation in tungsten and tin prices are expected in the coming years. Whilst China continues to dominate the world mining market in the two minerals, the availability of mineral units to non-Chinese markets will decline due to the fast growing Chinese economy, which further led to strong domestic demand. With producers struggling to meet demand, global mining costs continue to increase and the enforcement of tighter production quotas and higher export duties, the outlook of the global prices of the two minerals appear positive.

6 Figures for 2008 are estimated amount only.

## METHODOLOGIES CONSIDERED AND REJECTED

In formulating an opinion of fair value of the Mineral Property, we have considered and rejected and the following valuation methodologies:

### The Cost Approach

We consider this approach to be inappropriate because our analysis and investigation indicated that the business value of the Mineral Property is driven by i) the future capital investment by the Company for the operation and extraction of the Mineral Property; ii) the ability of the management of the Company to generate economic benefit from the Mineral Property; and iii) it is very unlikely that the Mineral Property can be replaced by one alike, containing comparable mineral specifications and transaction terms.

### The Market Approach

We consider this approach to be inappropriate because the Mineral Property, is unique and it is difficult to find similar mineral properties that have been acquired in the PRC. Although public information is sometimes available, there are generally not enough of these transactions (both transactions of similar companies or similar mineral properties in the PRC) to perform the valuation adequately. Another problem is that once the transaction is located, it is usually difficult to find out anything other than the financial terms of the transaction. Acquisition frequently involves specific buyer who pays a premium for special or unique considerations, so it is difficult to know if the price paid for the similar companies or similar mineral properties truly represents the fair value.

## METHOD APPLIED

### The Income Approach

The Income Approach is the most generally accepted way of determining a value indication of a business/project, business ownership interest, security, intangible asset, or mineral asset using one or more methods that convert anticipated economic benefits into a present single amount.

*Discount Rate*

Discount rate is applied for calculation of the present value of cash flows. Discounting the future cash flows allows for the time value of money. For the purpose of valuing the Mineral Property, we have assessed the Capital Asset Pricing Model ("CAPM") to calculate the discount rate for the mining operation of the Mineral Property.

*Capital Asset Pricing Model*

In financial theory, the cost of equity is defined as the minimum rate of return required by investors that a company must earn on the equity-financed portion of its capital to leave the market price of its stock unchanged. If the return on equity was lower than the minimum rate required by investors (that is, the company was not meeting the earnings expectations), the company's share price would fall so that it would yield the necessary minimum return. Thus, we calculate the required rate of return on equity by using the CAPM. When applying the CAPM to estimate a company's cost of equity capital, we add a risk premium; that is, the additional return that investors require over the risk-free rate. The underlying assumption is that investors are risk-adverse and are seeking to maximize the returns on their investments. The cost of equity using CAPM is calculated from the formula below:

**Re = Rf + (Rm – Rf) + SCP + IRP + SCA**

The calculation of CAPM therefore becomes:

| | |
|---|---|
| The risk free rate of return (Rf)[7]: | 4.49% |
| Expected Market Return for China (Rm)[8]: | 13.20% |
| Small company premium (SCP)[9] | 3.65% |
| Industry Risk Premium (IRP)[10] | -4.03% |
| Specific company adjustment (SCA)* | 3.00% |
| ∴ **CAPM (Cost of equity) (Re)** | 20.31% |
| *rounded* | 20% |

7 Yield of 15-yr Chinese Government Bond

8 Expected Market Return for China, as quoted on Bloomberg

9 SBBI Valuation Year Book by Ibbotson Associates

10 SBBI Valuation Year Book by Ibbotson Associates

* *Specific company adjustment (SCA) is a risk premium often added to the CAPM to reflect company-specific risk elements based upon company-specific factors such as history of company, cyclical risk, risk of competitive encroachment, and various operating concentrations (key executive dependency, customer concentration and the like). In the case of the Mineral Property, we conclude that SCA of 3% is appropriate due to the greenfield and early development stage of the Mineral Property.*

*Net Cash Flow*

For the purpose of this analysis, the net cash flow is computed as:

\+ Net Income
– Capital Expenditure
– Additional Working Capital
\+ Depreciation
\+ Amortisation

= Net cash flow

*Non-cash charges* are accounting expenses such as amortization, depletion and depreciation. These expenses are added back as they do not represent actual expenditures incurred of the Company and thus do not reduce the amount of cash available to the owner.

*Discount for Lack of Marketability*

The Discount for Lack of Marketability ("DLOM") can be the valuation adjustment with the largest monetary impact on the final determination of value. Marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. The DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability. The Mineral Property is not traded nor does an established market exist for it, prudent investors would apply a discount to the Mineral Property to reflect its lack of liquidity. For this reason, we adopted 10% DLOM is for the Mineral Property.

**VALUATION ASSUMPTIONS**

As there is no assurance that all mining plans of the Mineral Property provided to us by the Company will materialise may be subject to uncertainty in operations, a number of assumptions have to be established in order to sufficiently support our concluded value of the Mineral Property. The major assumptions adopted in this valuation are:

– there will be no material change in the existing political, legal, fiscal, foreign trade and economic conditions in the PRC;

– there will be no material changes in interest rates or foreign currency exchange rates from those currently prevailing;

– tungsten and tin assumptions are made with reference to historical price movement and the prices stated in the Conceptual Overview;

– the recovery rates of 85% and 65% and the concentration rates of 65% and 60% for tungsten and tin respectively are in accordance with the Conceptual Overview;

– in the opinion of the management of the Mineral Property and the Company, volume of production with 1.8 million ore tonnes per annum and the corresponding costs, expenses and capital investment of the Mineral Property will be applied as stated in the Conceptual Overview;

– fixed assets of the Mineral Property including any equipment and facilities are depreciated throughout the project life, using straight-line method with reference to the Conceptual Overview;

– all relevant legal approvals, land use rights and business certificates or licenses related to the Mineral Property are formally obtained and that no additional costs or fees are needed to procure such during the application; and

- the Company will retain competent management, key personnel, and technical staff to support the ongoing operation of the Mineral Property.

## LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Mineral Property.

The opinions expressed in this report have been based on the information supplied to us by the Company and its staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the Company management, reader of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

The reserves we stated are wholly based on the reserve consultant that we substantially relied on for the business valuation. Fair value is subject to recovery rate of reserve and exploration/production technology which may vary significantly in accordance to any professional technical/exploration consultation.

This valuation reflects facts and conditions existing at the valuation date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

## SYNTHESIS AND RECONCILIATION

Because valuations cannot be made on the basis of a prescribed formula, there is no means whereby the various applicable factors in a particular case can be assigned mathematical weights in deriving the fair value. For this reason, no useful purpose is served by taking an average of several factors (for example, book value, capitalized earnings and capitalized dividends) and basing the valuation on the result. Such a process excludes active consideration of other pertinent factors, and the end result cannot be supported by a realistic application of the significant facts in the case except by mere chance.

The following comparative data summarizes and the various methods that we have accepted or considered and rejected, along with their respective final values. Each method is rated relative to the applicability of the method relative to the Company's facts and circumstances, and strengths/ weaknesses were previously discussed.

**Asset Approach**

Replacement, Liquidation or Book Value Method . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . N/A
Application . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . Rejected

**Market Approach**

Comparable Company Method or Comparable Transaction Method . . . . . . . . . . . . . . . . . N/A
Application . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . Rejected

**Income Approach**

Discounted Cash Flow Method . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . RMB4,725,000,000
Application . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . Accepted

Since the income approach is the only valid and applicable approach in this valuation, we conclude the fair value of our valuation is RMB4,725,000,000 using discounted cash flow method.

**CONCLUSION OF VALUE**

Based on the investigation and analysis stated above and on the valuation method employed, in our opinion, the fair value of the Mineral Property as of the Valuation Date is:

RENMINBI FOUR BILLION SEVEN HUNDRED AND TWENTY-FIVE MILLION ONLY (RMB4,725,000,000)

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the company and have neither personal interest nor bias with respect to the parties involved.

This valuation report is issued subject to our general service conditions.

Yours faithfully,
For and on behalf of
**GREATER CHINA APPRAISAL LIMITED**
**K. K. Ip**
*Registered Business Valuer of HKBVF*
*MRICS, MHKIS and RPS (GP)*
*Managing Director*

*Note:*

Mr. K.K. Ip, a Chartered Valuation Surveyor of The Royal Institution of Chartered Surveyors (RICS), Member of Surveyors Registration Board of Hong Kong, Member (General Practice Division) of The Hong Kong Institute of Surveyors (HKIS) and Registered Business Valuer of The Hong Kong Business Valuation Forum (HKBVF), has substantial experience in property, plant and machinery, business enterprise and intellectual property valuations for various purposes in Greater China Region since 1992.

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

29th Floor
Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

October 31, 2008

The Board of Directors
Mongolia Energy Corporation Limited

Dear Sirs,

We have examined the principal accounting policies adopted in and the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "Forecast") underlying the valuation (the "Valuation") of the proposed initial acquisition in Xinjiang, the People's Republic of China (the "PRC") relating to copper, tin and multi-metal resources with explored tungsten and tin resources (the "Assets") performed by Greater China Appraisal Limited (the "Valuer") in respect of the appraisal of the fair value of the Assets as at the reference date of August 18, 2008 in connection with the circular of Mongolia Energy Corporation Limited (the "Company") dated October 31, 2008 (the "Circular").

**Respective responsibilities of directors and RSM Nelson Wheeler**

The directors of the Company are responsible for the preparation of the Forecast and the reasonableness and validity of the assumptions based on which the Forecast is prepared (the "Assumptions").

It is our responsibility to form an opinion based on our reasonable assurance engagement, so far as the accounting policies and the arithmetical accuracy of the calculations are concerned, on whether the Forecast has been properly compiled, in all material respects, in accordance with the Assumptions and on a basis consistent with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended March 31, 2008 and to report our opinion solely to you, as a body, solely for the purpose in connection with the Circular and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

The Assumptions include hypothetical assumptions about future events and management actions that may or may not necessarily be expected to occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Accordingly we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

**Basis of opinion**

We conducted our reasonable assurance engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" with reference to the procedures under Auditing Guideline 3.341 "Accountants'

Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our work was performed solely to assist the directors of the Company to evaluate, so far as the accounting policies and the arithmetical accuracy of the calculations are concerned, whether the Forecast has been properly compiled, in all material respects, in accordance with the Assumptions and on a basis consistent with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended March 31, 2008.

We planned and performed our reasonable assurance engagement so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give our opinion. Our reasonable assurance engagement included:

a. obtaining an understanding of the principal accounting policies adopted in the preparation of the Forecast through inquiry of persons responsible for financial and accounting matters;

b. comparing the principal accounting policies adopted in the preparation of the Forecast with those adopted in the preparation of the audited consolidated financial statements of the Company for the year ended March 31, 2008;

c. checking the arithmetical calculations relating to the amounts presented in the Forecast; and

d. such other procedures that we considered necessary.

We believe that our reasonable assurance engagement provides a reasonable basis for our opinion.

Our reasonable assurance engagement does not constitute an audit or a review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA. Accordingly, we do not express an audit or a review opinion on the Forecast.

The Valuer has adopted the income approach in determining the fair value of the Assets. We are not aware of any accounting policies adopted which had caused material impact to the result of Valuation under the income approach as adopted by the Valuer.

**Opinion**

In our opinion, based on the foregoing, so far as the accounting policies and the arithmetical accuracy of the calculations are concerned, the Forecast has been properly compiled, in all material respects, in accordance with the Assumptions and on a basis consistent with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended March 31, 2008.

Yours faithfully,
**RSM Nelson Wheeler**
*Certified Public Accountants*
Hong Kong

*The following is the full text of a report from Yu Ming Investment Management Limited in connection with the cash flow forecast underlying the valuation report prepared by the Independent Valuer in this Appendix for the purposes of inclusion in this circular.*

YU MING INVESTMENT MANAGEMENT LIMITED
禹銘投資管理有限公司

October 31, 2008

The Board of Directors
Mongolia Energy Corporation Limited
Room 1502-5, New World Tower 1
16-18 Queen's Road Central
Hong Kong

Dear Sirs,

We refer to the valuation prepared by Greater China Appraisal Limited ("Independent Valuer") in relation to the fair value of the 100% controlling and non-marketable ownership of the exploration right, in connection with the exploration, development, extraction or processing minerals, mainly tungsten and tin, in the Ruoqiang County of the Ba Yin Guo Leng Mongolia Autonomous State, Xinjiang, People's Republic of China ("Valuation"), the report of which is included in the circular of Mongolia Energy Corporation Limited ("MEC") dated October 31, 2008 (the "Circular").

We have reviewed the forecasts upon which the Valuation has been prepared, for which you as the directors of MEC (the "Directors") are solely responsible, and discussed with the director and management of MEC and the Independent Valuer regarding the basis and assumptions of the Valuation, and have reviewed the letter issued by RSM Nelson Wheeler dated October 31, 2008 as set out in Appendix III to the Circular regarding whether the forecasts, so far as the arithmetical accuracy of the calculations are concerned, have been properly compiled in accordance with the assumptions made by the Directors.

On the basis of the foregoing, we are satisfied that the aforementioned forecasts have been made after due and careful enquiry by you.

Yours faithfully,
For and on behalf of
**YU MING INVESTMENT MANAGEMENT LIMITED**
**Lee Wa Lun, Warren**
*Director*

# PRELIMINARY RESOURCE ASSESSMENT
# KEKE-KAERDE TUNGSTEN-TIN DEPOSIT

Xinjiang Uygur Autonomous Region
People's Republic of China

Prepared For
**MONGOLIA ENERGY CORPORATION LIMITED**

By
**John T. Boyd Company**
Mining and Geological Consultants
Pittsburgh, Pennsylvania, U.S.A.

Report No. 3359.1

# John T. Boyd Company

Mining and Geological Consultants



October 31, 2008
File: 3359.1

Mongolia Energy Corporation Limited
Room 1502-5, New World Tower
16-18 Queen's Road
Central Hong Kong
HONG KONG

Attention: Mr. James J. Schaeffer, Jr.
Chief Executive Officer

Subject: Preliminary Resource Assessment
Keke-Kaerde Tungsten-Tin Deposit
Xinjiang Uygur Autonomous Region
People's Republic of China

Dear Sirs,

This report presents our preliminary assessment of resource potential of the Keke-Kaerde tungsten and tin deposit located in Xinjiang Uygur Autonomous Region, People's Republic of China. By assignment, work is limited to a desktop review of available geologic and resource studies completed in October 2007.

All work is considered preliminary due to the early exploration stage of development of the Keke-Kaerde Deposit.

Respectfully submitted,

**JOHN T. BOYD COMPANY**
By:

**John T. Boyd II**
*President and CEO*

## 1.0 INTRODUCTION

### 1.1 Background

The service of John T. Boyd Company (BOYD) was contracted in March 2008, by Mongolia Energy Corporation Limited (MEC) to complete a preliminary review of the resource potential of the Keke-Kaerde tungsten deposit. By assignment, all work is done on a desktop basis. The project site is located in the Xinjiang Uygur Autonomous Region, People's Republic of China (PRC) approximately 130 kilometers south of the town of Ruoqiang (Figure 1.1), following this text.

It is our understanding MEC will use this report as an independent technical review to support company information releases on the Stock Exchange of Hong Kong (HKEX).

Tungsten is a hard, heavy, steel-grey to white refractory/transition metal found in several ores including wolframite and scheelite. It is utilized in either pure form or in compounds and alloys. Due to tungsten's robust physical properties. its main uses are in electrical applications such as light bulb filaments and in X-ray tubes (as both the filament and target) and in super-alloys. The uses for tungsten are being expanded, especially in the high-tech industries. Extensive deposits of the metal are located in PRC which accounts for 47 percent of the world's reported reserves.

### 1.2 Scope of Work

The primary focus of the scope of work is a desktop review of the available resource estimates. This preliminary technical review included the following tasks:

- Review of documents and reports made available to BOYD concerning the Keke-Kaerde deposit.

- Opine on the reasonableness of resource/reserve estimates and if such estimates conform to international reporting standards.

To assist in better understanding the property, a site visit was made by BOYD personnel at commencement of the review.

BOYD's assignment is preliminary in nature and is intended to opine on resource potential and to identify major problems, risks or uncertainties that could affect the future mine development of the Keke-Kaerde deposit. An assessment of other factors, such as current and future tungsten or tin markets, or transportation and sales issues of the plant products, is beyond the scope of this review.

### 1.3 BOYD Qualifications

BOYD is one of the largest independent consulting firms in the world exclusively serving the mining and related industries. Consultancy services have been provided on a continuous basis since 1943 in over 50 countries. Our full-time staff includes specialists in geology, resources/ reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues. BOYD possesses extensive computer and software systems to estimate resources and reserves and to complete mine plans. These include Vulcan, MINCOM, SurvCadd, and others. We have extensive experience in preparing Competent Persons and Independent Technical Reports for international financing purposes and for stock exchange filings. We are knowledgeable of listing requirements of The Stock Exchange of Hong Kong, London Stock Exchange, NI 43-101 (Canadian Requirements), JORC Code, U.S. Securities and Exchange Rules, etc.

BOYD's headquarters office is located in Pittsburgh, Pennsylvania, USA. Branch offices are in Beijing, China; Denver, Colorado, USA; and Brisbane, Australia.

BOYD was selected for this assignment on the basis of our internationally recognized expertise in exploration, resource/reserve studies, mine development, and evaluation. We have no ownership interest in the Keke-Kaerde deposit, MEC or any of their subsidiaries or affiliates. Payment for our services is not contingent upon our opinions regarding neither the merits of the Keke-Kaerde deposit and operations nor approval of our work by MEC. BOYD has completed this work in accordance with US and international standards of ethics and professional practices.

### 1.4 Data Review

All information serving as a basis for this report has been supplied by MEC. This included an October 2007 Medium Geologic Report, and copies of exploration licenses and property boundary information.

Although the exploration licenses and the property descriptions were reviewed, BOYD did not undertake any investigation to verify proper rights to explore or exploit the mineral properties. It was accepted that there were no restraints of a land control nature on the operations.

Our review of mineral resources/reserves was completed in accordance with the JORC Code.[1]

[1] The Australasian Code for Mineral Resources and Ore Reserves Reporting of Exploration Results as prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.

### 1.5 Report Qualifications

This study is a preliminary mineral resource review and is not intended as, and should not be construed as a formal due diligence investigation.

This report is intended for the use of MEC in support of a public information disclosure on the HKEx.

The Keke-Kaerde deposit is in the early stages of exploration and any comments and opinions regarding resource occurrence, tonnage, and grade are considered preliminary, and subject to confirmation by further exploration.

The ability of MEC, or any mining company, to achieve mining and processing plans is dependent upon numerous factors that cannot be accurately predicted or anticipated by BOYD. These factors would include, but are not limited to, mining and geologic conditions, access to capital, the capabilities of management and employees, variations in market conditions, and the ability to operate mines and process plants in an efficient manner. Unforeseen changes in government rules and regulations or changing industrial developments could substantially alter the performance of any mining company. The findings and opinions presented herein were prepared for MEC and are not warranted in any manner, expressed or implied.

Following this page is Figure 1.1, General Location Map for Keke-Kaerde Tungsten Deposit.

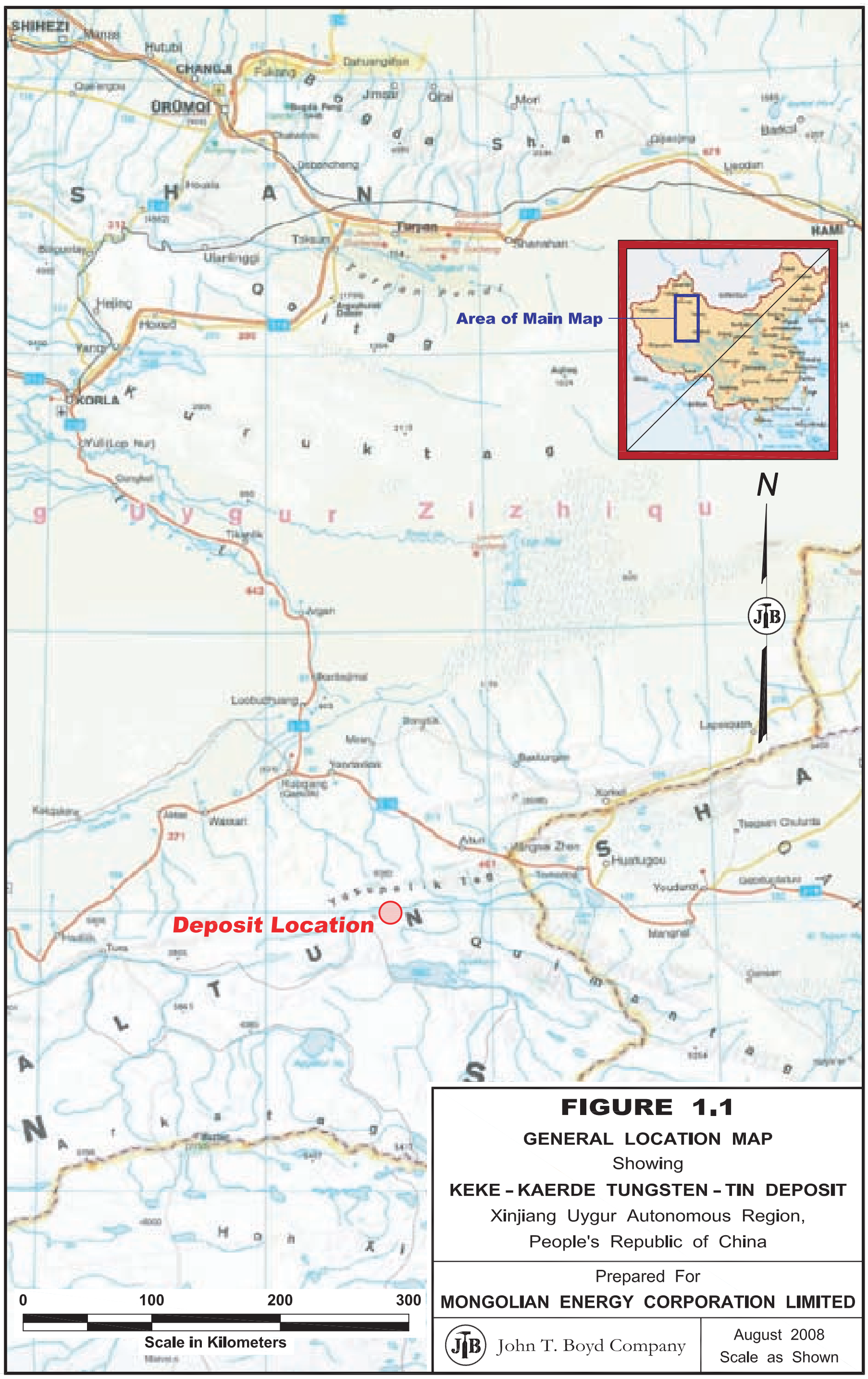
Respectfully submitted,

**JOHN T. BOYD COMPANY**
By:

**Benjamin A. Quashie**
*Mining Engineer*

**Michael P. Richardson**
*Senior Mining Engineer*

**David L. Rohanna**
*Managing Director – EurAsia*



Area of Main Map
N
Deposit Location
FIGURE 1.1
GENERAL LOCATION MAP
Showing
KEKE – KAERDE TUNGSTEN – TIN DEPOSIT
Xinjiang Uygur Autonomous Region,
People's Republic of China
Prepared For
MONGOLIAN ENERGY CORPORATION LIMITED
John T. Boyd Company
August 2008
Scale as Shown
0 100 200 300
Scale in Kilometers

## 2.0 SUMMARY

This Summary presents the major conclusions of our preliminary desktop assessment of the resource potential of the Keke-Kaerde tungsten-tin deposit located in the Xinjiang Uygur Autonomous Region of the PRC. These summarized statements are supported by the text, tables and figures in the body of this report.

### 2.1 Conclusions

The following conclusions can be made concerning the present status of the Keke-Kaerde deposit and work progress to date:

- The Keke-Kaerde deposit is an attractive exploration project with the potential to become an excellent producer of tungsten and tin.

- The resource base for the deposit requires additional exploration to determine its full potential. Much of the deposit as currently explored does not have sufficient supporting data to complete a professional estimate of reportable resources. Further exploration within the known deposit area is required to upgrade the deposits status to a level that either a prefeasibility study or a feasibility study can be performed, and resources and reserves quantified. We understand that further exploration is planned in 2008.

- Once the additional exploration work has been completed to adequately define the deposit and resource base, a feasibility study needs to be completed.

- The work done to date is in conformity with the Chinese resource reporting standards, it does not comply with international standards for resource reporting.

- The work reviewed by BOYD was conceptual in nature. Therefore, BOYD's results and interpretations should be considered preliminary. This is appropriate considering the current status of the deposit.

### 2.2 Geology and Resources

The Keke-Kaerde deposit is in metasedimentary rocks of Cretaceous/Jurassic age. Mineralization is at least partially controlled by a major northeast trending fault which traverses the area but appears to be truncated to the northeast by another fault which trends northwesterly. This fault system and the surrounding country rock has been intruded by a Cretaceous intrusive, that appears to be the host of the mineralization. The mineralization itself occurs as a series of sub-parallel veins containing a complex of tungsten and tin minerals.

The deposit has been actively explored since year 2000. The results of work to date are summarized by the following data list:

| **Data Description** | **Items** |
|---|---|
| Trenching Assay Table | 1 |
| Geologic Map w/ Sample Locations | 1 |
| Drill Hole Cross Sections | 8 |
| Drill Logs | 19 |
| 4301 Geologic Plan Map | 1 |
| Horizontal Projection Map | 1 |

These data serve as the basis for the resource estimates for the deposit.

Total resources within the Keke-Kaerde Deposit, as estimated in the October 2007 Report, are identified in eleven (11) defined ore bodies (numbered 1 through 11) and total 235,491 tonnes of tungsten and 49,397 tonnes of tin, as follows:

| | **Tungsten** | | | **Tin** | | |
|---|---|---|---|---|---|---|
| | **Ore Tonnes** | **$WO_3$** | | **Ore Tonnes** | **Sn** | |
| **Class** | *(000)* | *(%)* | *(Tonnes)* | *(000)* | *(%)* | *(Tonnes)* |
| 122b* | 3,406 | 1.09 | 37,024 | 3,406 | 0.33 | 11,274 |
| 333 | 5,327 | 1.35 | 72,139 | 3,599 | 0.40 | 14,234 |
| 334 | 14,422 | 0.88 | 126,328 | 6,596 | 0.36 | 23,889 |
| Total | 23,155 | 1.02 | 235,491 | 13,601 | 0.36 | 49,397 |

* *BOYD would classify this as "322b".*

As shown, all estimated resources (except a portion of Orebody 6) are classified by hypothetical (Class 334).

The reportable resources of the deposit, following the Australasian Code for Mineral Resources and Ore Reserves Reporting of Exploration Results, the JORC Code, are limited to a portion of Orebody 6 and summarized as follows:

| | **Tungsten** | | | **Tin** | | |
|---|---|---|---|---|---|---|
| | **Ore Tonnes** | **$WO_3$** | | **Ore Tonnes** | **Sn** | |
| **Class** | *(000)* | *(%)* | *(Tonnes)* | *(000)* | *(%)* | *(Tonnes)* |
| Indicated | 3,406 | 1.09 | 37,024 | 3,406 | 0.33 | 11,274 |
| Inferred | 5,327 | 1.35 | 72,139 | 3,599 | 0.40 | 14,234 |
| Total | 8,733 | 1.25 | 109,163 | 7,005 | 0.36 | 25,508 |

These results do not include speculative or hypothetical resource estimates which are not acceptable (as resource) under JORC reporting standards. The October 2007 report includes Chinese Standard 334 resources, which cannot be included in a JORC resource estimate, but total an additional 4.9 million tonnes of tungsten ore containing 55 thousand tonnes of $WO_3$ and 1.6 million tonnes of tin ore containing 6 thousand tonnes of tin.

## 3.0 GEOLOGY AND RESOURCES

### 3.1 Location and Physical Setting

The Keke-Kaerde deposit is located in south Xinjiang Uygur Autonomous Region of the PRC and centered on N 37°57.6’ and E 88°56.5’ (See Figure 1.1).

Accessibility to the deposit is poor due to the remoteness and rugged mountainous terrain. In addition, the region is virtually uninhabited. The nearest townships within Xinjiang Uygur Autonomous Region are Korla and Ruoqiang with second/third class road access. The deposit lies 130 km in a direct line south of Ruoqiang, but about 300 km by road.

The nearest airport with scheduled service is at Korla, about 470 km straight line distance from the study area, but over 700 km by road. The nearest practical rail connection is in Urumqi, the provincial capital, which is over 1,000 km distant by road. MEC reports that closer access to infrastructure is available in Quinhai Province, located immediately east of Xinjiang Uygur Autonomous Region and about 100 km east of the deposit area.

The area is characterized by rugged, mountainous terrain, sparse vegetation, and high altitude (approximately 4,000 m) as indicated by the following image:


Goggle Earth™ View of the Deposit Area (white line = 40 km)

The climate, as reported at Ruoqiang, the nearest weather station, shows temperatures ranging from average low temperatures in January of -13°C to average high temperatures of 35°C in July. Annual precipitation is 25 mm, mostly falling in the summer months of June through August. However, since the deposit area is 3,000 m higher in elevation than Ruoqiang, climatic conditions should vary.

### 3.2 Property Control

MEC has provided to BOYD a copy of the exploration license in the deposit area comprising 13.54 $km^2$, covering the Keke-Kaerde prospect. The coordinates of the Keke-Kaerde deposit license are as follow: 88°55'00" to 88°57'30" East longitude and 37°56'30" to 37° 58'30" North latitude. MEC has a priority right to acquire the resources and development rights to exploration licenses controlled by Exploration licenses held by Xinjiang Yinye Mineral Products Development Company, Ltd (Xinjiang Yinye) for an additional 32.18 $km^2$ in surrounding areas.

### 3.3 Exploration History

Exploration of the Keke-Kaerde deposit has been ongoing since the year 2000, with mineralized zones initially identified by stream sediment sampling. Subsequently, rock chip sampling and mapping were carried out. In 2007 detailed work was done on the Keke-Kaerde deposit, which was deemed most favorable for success. The Keke-Kaerde deposit encompasses an area of about 10 $km^2$. Exploration work specific to this deposit includes rock chip sampling, geophysical survey work, geologic mapping, drilling, trenching, and tunneling with eleven (11) mineralized zones having been identified as "ore bodies" numbered 1-11. The zone of primary interest is the No. 6 "ore body", which has subjected to the most detailed work to augment its status.

Total 2007 exploration conducted on this deposit and surrounding areas is summarized as follows:

- 19 core holes (4,700 m) drilled on a nominal 60 m x 100 m spacing.
- Trenching, 24,400 $m^3$ (1,910 linear m) on 100 m spacing.
- Tunneling, 186 m.
- Topographic mapping, covering 182 $km^2$.
- Geologic mapping, covering 1.5 $km^2$.
- Hydrologic survey, covering 212 $km^2$.

## 3.4 Geology

### *3.4.1 Regional Geology*

The Keke-Kaerde deposit is located in the Altun Shan, an east-west trending mountain range marking the boundary between the high Tibetan Plateau to the south and the much lower Tarim Basin to the north. The main structural feature of the Altun Shan is the Altyn Tagh Fault zone, a left-lateral, strike slip fault that reflects the relative motion of the Indian and Eurasian plates. This fault zone probably originated in the Eocene and continues to be active.

### *3.4.2 Deposit Geology*

The Keke-Kaerde tungsten/tin deposit is hosted by metasedimentary rocks of Cretaceous/Jurassic age. The mineralized zones are concordant and penecontemporaneous with the host sediments, which strike northeast and dip 40°-55° southeast.

Mineralization is at least partially controlled by a major northeast trending fault which traverses the area. The deposit appears to be truncated to the northeast by another major fault, that trends northwesterly.

The structure is modified by a magmatic body of probable Cretaceous age which has intruded the metasedimentary sequence. The primary mineralized zone is hosted by this rock.

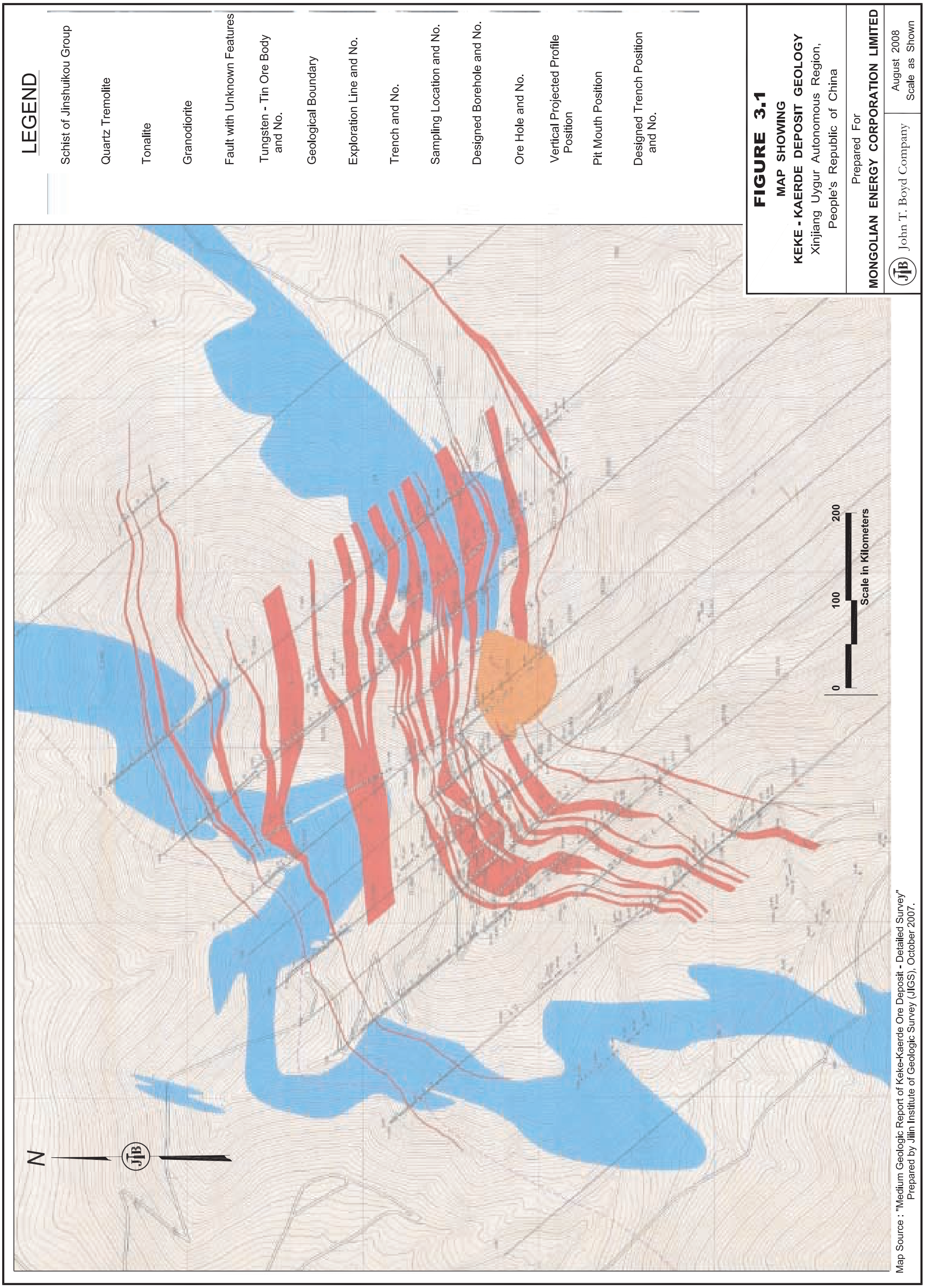
Figure 3.1, following this page, is a geologic map of the deposit area showing the outcrops of the various deposits and the rugged topography of the area.

### *3.4.3 Deposit Mineralization*

The deposit has vein minerals made up of quartz, wolframite, scheelite, cassiterite, tungstite, chalcopyrite, fluorite and minor sulphides. The sulphides have been found to constitute less than 1.0% of the mineralized veins.

The principal tungsten and tin ore minerals are wolframite and cassiterite respectively. Scheelite is found locally within the deposit and may have economic value.

Five (5) stages of mineralization are recognized: syngenetic, deformational metamorphic, hydrothermal, epigenetic hydrothermal and supergene oxidation.


LEGEND
Schist of Jinshuikou Group
Quartz Tremolite
Tonalite
Granodiorite
Fault with Unknown Features
Tungsten - Tin Ore Body and No.
Geological Boundary
Exploration Line and No.
Trench and No.
Sampling Location and No.
Designed Borehole and No.
Ore Hole and No.
Vertical Projected Profile Position
Pit Mouth Position
Designed Trench Position and No.
FIGURE 3.1
MAP SHOWING
KEKE - KAERDE DEPOSIT GEOLOGY
Xinjiang Uygur Autonomous Region,
People's Republic of China
Prepared For
MONGOLIAN ENERGY CORPORATION LIMITED
JTB John T. Boyd Company
August 2008
Scale as Shown
0
100
200
Scale in Kilometers
N
JTB
Map Source : "Medium Geologic Report of Keke-Kaerde Ore Deposit - Detailed Survey"
Prepared by Jilin Institute of Geologic Survey (JIGS), October 2007.

## 3.5 Resources and Reserves

### *3.5.1 Introduction*

Resource work done to date on the KeKe-Kaerde deposit has been completed in accordance with the Chinese National Land and Resource Department national standard for the Classification of Resources /Reserves for Solid Fuels and Mineral Commodities (Chinese Standard). In order to understand how this relates to international standards, especially the JORC Code[1] a brief discussion of each is included.

The Chinese Code is based upon the United Nations international code (UN Economic and Society Committee, UN document ENERGY/WP.1/R.70). Some elements of the American resource reporting standards have been included and modifications made to suit Chinese conditions. All new resource estimates are reported under this new code and old estimates either re-estimated or converted to the new system.

Previous codes were essentially a geological classification, taking little account of the deposits economics or the level of mining studies that had been carried out on it. The new code addresses this by using a three component system (EFG) that considers the deposit economics (E), the level of mining feasibility studies that have been carried out (F) and the level of geological confidence (G) using a numerical ranking.

This system produces a three digit code for a deposit that reflects these three variables. For example a deposit classified as a 121 is economically viable (1), has had pre-feasibility studies carried out (2) and is well understood geologically (1). Various suffixes are used to distinguish Basic Reserves – essentially JORC Resources – (121b) from Extractable Reserves (121) and to identify the assumed economic viability (S or M). Certain categories are not allowed, for example pre-feasibility or feasibility level studies cannot be conducted on Inferred Resources. Also Extractable Reserves are not estimated for marginally economic (or lesser) deposits so the (b) suffix is considered redundant. The term Intrinsically Economic indicates that while the deposit may be economic, insufficient studies have been carried out to clearly determine its status.

Unlike the previous code, the new code does not specify required borehole spacing for each category.

In the case of copper cobalt and gold (and other metals), there is an accompanying Chinese Professional Standard (DZ/T 0214-2002) that sets out rules for determining the level of geological confidence.

[1] Australasian Code for Mineral Resources and Ore Reserves Reporting of Exploration Results as prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC).

JORC outlines specific guidelines (i.e., JORC Code) for reporting reserves and resources. These guidelines give the following definitions for mineral resources:

> A 'Mineral Resource' is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.
>
> A 'Measured Mineral Resource' is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.
>
> An 'Indicated Mineral Resource' is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.
>
> An 'Inferred Mineral Resource' is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

In general the following comparison can be made between the Chinese Code and JORC Code, in terms of the geologic control and continuity of a deposit:

| **Chinese Code** | **JORC** |
|---|---|
| XX1 | Measured |
| XX2 | Indicated |
| XX3 | Inferred |
| XX4 | Not Allowed |

International standards such as JORC consider mineralization in the Chinese Code XX4 category as "speculative" or "hypothetical" and never allow their inclusion in a resource estimate.

The JORC definition of Reserves is:

> An 'Ore Reserve' is the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Because Keke-Kaerde lacks a comprehensive feasibility level document that documents the actual economic viability of the deposit (third and fourth sentences in the above definition), no reserves can be reported at this time.

*3.5.2 Sample Data*

The October 2007 report discussed exploration results for three areas: Baiganhu, Bashen-xier and Keke-Kaerde. However, due to the scarcity of exploration work Baiganhu and Bashen-xier had very minimal data gathered using appropriate techniques. These two sites are, therefore, classified as a reconnaissance exploration by JORC standard or prospecting by UN standard. This desk-top technical review only includes the Keke-Kaerde deposit based on the following available data.

| **Data Description** | **Items** |
|---|---|
| Trenching Assay Table | 1 |
| Geologic Map w/ Sample Locations | 1 |
| Drillhole Cross Sections 8 Drill Logs | 19 |
| 4301 Geologic Plan Map | 1 |
| Horizontal Projection Map | 1 |

All work by BOYD was completed on a desktop basis using information as provide by MEC. We did not confirm any of the sample data and assumed it is both complete and accurate. Actual assay data quality were not examined, apart from limited validation by cross-checking the original assay results and examining the credentials of the laboratory which undertook the sample analysis. For purposes of this study, BOYD assumes that drilling, trenching, tunneling, sampling, and analytical testing procedures employed at the Keke-Kaerde project area were consistent with Chinese industrial standards and practices.

*3.5.3 Resource Estimation*

The October 2007 Report, identified resources within eleven (11) orebodies which totaled 235,491 tonnes of tungsten and 49,397 tonnes of tin, as follows:

| | Tungsten | | | Tin | | |
|---|---|---|---|---|---|---|
| | Ore Tonnes | $WO_3$ | | Ore Tonnes | Sn | |
| **Class** | *(000)* | *(%)* | *(Tonnes)* | *(000)* | *(%)* | *(Tonnes)* |
| 122b* | 3,406 | 1.09 | 37,024 | 3,406 | 0.33 | 11,274 |
| 333 | 5,327 | 1.35 | 72,139 | 3,599 | 0.40 | 14,234 |
| 334 | 14,422 | 0.88 | 126,328 | 6,596 | 0.36 | 23,889 |
| Total | 23,155 | 1.02 | 235,491 | 13,601 | 0.36 | 49,397 |

* *BOYD would classify this as "322b".*

As shown, all estimated resources (except a portion of Orebody 6) are classified by hypothetical (Class 334).

The resource estimations were completed utilizing cross sectional methodology, as is the standard for most Chinese resource calculations, rather than a 3-dimensional (3D) block model. The assumptions and calculations used have been examined by BOYD and are judged to be appropriate for the type of deposit being reviewed.

BOYD converted part of the hard copy information for the Keke-Kaerde deposit into digital format in order to validate the resource interpretations. This work confirmed that the resources shown in the October 2007 report were, in general, competently done to Chinese Code standards. Minor mathematical and rounding irregularities were found, but were not considered material. Table 3.1, following this text, shows the results of the October 2007 report's summary of resources, with minor modifications, for Orebody 6, while Table 3.2 present similar results for the whole of the Keke-Kaerde deposit. It should be noted that those areas lacking in tin assay data were not considered in the totals shown for tin, resulting in a different ore tonnage for tungsten "ore" and tin "ore". The cutoff grade used for tungsten was 0.08% $WO_3$ and 0.10% Sn for tin.

Although reported Chinese Code results have been judged to be properly calculated, they are not considered JORC compliant. For purposes of this conceptual review, BOYD made an approximate re-statement of reported results to JORC standards. The following revisions were made:

- Eliminated all 334 category material from consideration for JORC resources.

- Placed all 122b material in the Indicated Resources category under JORC.

- Placed all 333 material in the Inferred Resources category under JORC.

These changes have eliminated the mineralized material from all the "orebodies" except "Orebody 6". The following summarizes these results, showing the reportable resources at Keke-Kaerde that meet JORC standards:

| | Tungsten | | | Tin | | |
|---|---|---|---|---|---|---|
| Assurance Category | Ore Tonnes | $WO_3$ | | Ore Tonnes | Sn | |
| | *(000)* | *(%)* | *(Tonnes)* | *(000)* | *(%)* | *(Tonnes)* |
| Indicated | 3,406 | 1.09 | 37,024 | 3,406 | 0.33 | 11,274 |
| Inferred | 5,327 | 1.35 | 72,139 | 3,599 | 0.40 | 14,234 |
| Total | 8,733 | 1.25 | 109,163 | 7,005 | 0.36 | 25,508 |

It should be emphasized that although inferred resources can be reported under JORC, they cannot be used to establish reserves. For this reason, it is important to improve the knowledge of these resources through in-fill drilling to potentially upgrade them to measured or indicated. Additionally, it is clear that a large difference exists between the Chinese Code resources and JORC reportable resources. This difference can be minimized through a prudent exploration program designed to increase the geologic certainty of the Chinese Code 334 material. The Chinese Code 334 resources, which do not meet JORC reporting standards, total almost 4.9 million tonnes of tungsten ore containing 55 thousand tonnes of $WO_3$ and 1.6 million tonnes of tin ore containing 6 thousand tonnes of tin.

### 3.6 Exploration Potential

The preceding discussion concerning the difference between Chinese Code and JORC resources demonstrates a tremendous exploration potential for the Keke-Kaerde deposit. This clearly calls for more exploration work in the known deposit area, hopefully improving the Chinese Code 334 material classification to a level that meets JORC standards. In addition, some of the preliminary work reported in the October 2007 report indicates there may be other areas of mineralization in other exploration license areas controlled by the concession owner.

Following this page are:

Tables

3.1: Summary Orebody 6 Resource Estimate

3.2: Summary of Keke-Kaerde Deposit Total Resources

## TABLE 3.1

**SUMMARY OF REPORTED OREBODY 6 RESOURCE ESTIMATE***
**KEKE-KAERDE TUNGSTEN-TIN DEPOSIT**
**Prepared For**
**MONGOLIA ENERGY CORPORATION LIMITED**
**As Compiled By**
**John T. Boyd Company**
**Mining and Geological Consultants**
**August 2008**

| | | Tungsten | | | Tin | | |
|---|---|---|---|---|---|---|---|
| Classification | | Ore Tonnes | $WO_3$ | | Ore Tonnes | Sn | |
| Code | Polygon | *(000)* | *(%)* | *(Tonnes)* | *(000)* | *(%)* | *(Tonnes)* |
| 122b | 6-122b-1 | 189 | 0.75 | 1,418 | 189 | 0.70 | 1,323 |
| | 6-122b-2 | 1,142 | 1.55 | 17,701 | 1,142 | 0.38 | 4,340 |
| | 6-122b-3 | 1,277 | 1.03 | 13,153 | 1,277 | 0.30 | 3,831 |
| | 6-122b-4 | 454 | 0.63 | 2,860 | 454 | 0.18 | 817 |
| | 6-122b-5 | 344 | 0.55 | 1,892 | 344 | 0.28 | 963 |
| Subtotal – 122b | | 3,406 | 1.09 | 37,024 | 3,406 | 0.33 | 11,274 |
| 333 | 6-333-1 | 909 | 1.70 | 15,453 | 909 | 0.53 | 4,818 |
| | 6-333-2 | 1,285 | 1.38 | 17,733 | 1,285 | 0.35 | 4,498 |
| | 6-333-3 | 1,405 | 1.38 | 19,389 | 1,405 | 0.35 | 4,918 |
| | 6-333-4 | 1,457 | 1.30 | 18,941 | | | |
| | 6-333-5 | 271 | 0.23 | 623 | | | |
| Subtotal – 333 | | 5,327 | 1.35 | 72,139 | 3,599 | 0.40 | 14,234 |
| 334 | 6-334-1 | 422 | 0.70 | 2,954 | 422 | 0.50 | 2,110 |
| | 6-334-2 | 22 | 0.55 | 121 | – | – | – |
| | 6-334-3 | 158 | 0.55 | 869 | – | – | – |
| | 6-334-4 | 668 | 1.38 | 9,218 | 668 | 0.35 | 2,338 |
| | 6-334-5 | 536 | 1.38 | 7,397 | 536 | 0.35 | 1,876 |
| | 6-334-6 | 1,534 | 1.33 | 20,402 | – | – | – |
| | 6-334-7 | 807 | 1.33 | 10,733 | – | – | – |
| | 6-334-8 | 36 | 0.23 | 83 | – | – | – |
| | 6-334-9 | 691 | 0.48 | 3,317 | – | – | – |
| Subtotal – 334 | | 4,874 | 1.13 | 55,094 | 1,626 | 0.37 | 6,324 |
| TOTAL | | 13,607 | 1.21 | 164,257 | 8,631 | 0.37 | 31,832 |

* *Source: October 2007 Report.*

**TABLE 3.2**

**SUMMARY OF REPORTED KEKE-KAERDE DEPOSIT TOTAL RESOURCES***
**KEKE-KAERDE TUNGSTEN-TIN DEPOSIT**
**Prepared For**
**MONGOLIA ENERGY CORPORATION LIMITED**
**As Compiled By**
**John T. Boyd Company**
**Mining and Geological Consultants**
**August 2008**

| | | Tungsten | | | Tin | | |
|---|---|---|---|---|---|---|---|
| | | Ore Tonnes | $WO_3$ | | Ore Tonnes | Sn | |
| **Orebody** | **Class** | *(000)* | *(%)* | *(Tonnes)* | *(000)* | *(%)* | *(Tonnes)* |
| 1 | 334 | 468 | 0.23 | 1,076 | – | – | – |
| 2 | 334 | 166 | 0.50 | 830 | 166 | 0.08 | 133 |
| 3 | 334 | 2,116 | 0.43 | 9,099 | – | – | – |
| 4 | 334 | 933 | 0.45 | 4,199 | 933 | 0.45 | 4,199 |
| 5 | 334 | 1,547 | 1.20 | 18,564 | 1,547 | 0.30 | 4,641 |
| 6 | 122b** | 3,406 | 1.09 | 37,024 | 3,406 | 0.33 | 11,274 |
| | 333 | 5,327 | 1.35 | 72,139 | 3,599 | 0.40 | 14,234 |
| | 334 | 4,874 | 1.13 | 55,094 | 1,626 | 0.39 | 6,324 |
| 7 | 334 | 1,994 | 0.75 | 14,955 | – | – | – |
| 8 | 334 | 1,031 | 0.73 | 7,526 | 1,031 | 0.25 | 2,578 |
| 9 | 334 | 371 | 1.80 | 6,678 | 371 | 0.65 | 2,412 |
| 10 | 334 | 491 | 0.70 | 3,437 | 491 | 0.40 | 1,964 |
| 11 | 334 | 431 | 1.13 | 4,870 | 431 | 0.38 | 1,638 |
| Total | 122b | 3,406 | 1.09 | 37,024 | 3,406 | 0.33 | 11,274 |
| | 333 | 5,327 | 1.35 | 72,139 | 3,599 | 0.40 | 14,234 |
| | 334 | 14,422 | 0.88 | 126,328 | 6,596 | 0.36 | 23,889 |
| | Total | 23,155 | 1.02 | 235,491 | 13,601 | 0.36 | 49,397 |

* *Source: October 2007 Report*
** *BOYD would classify this as "322b".*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the Shares, underlying Shares (within the meaning of Part XV of the SFO) or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (iii) 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 issued and underlying Shares*

| Name of Director | Capacity | Number of Shares interested | Number of underlying Shares interested | Total | Approximate percentage of shareholding |
|---|---|---|---|---|---|
| Mr. Lo Lin Shing, Simon ("Mr. Lo") | Beneficial owner/ Interest of a controlled corporation/ Interest of spouse | 1,200,739,301 *(Note)* | 690,000 | 1,201,429,301 | 19.86% |
| Ms. Yvette Ong | Beneficial owner | 1,090,000 | – | 1,090,000 | 0.02% |
| Mr. To Hin Tsun, Gerald | Beneficial owner | 5,400,000 | – | 5,400,000 | 0.09% |
| Mr. Tsui Hing Chuen, William | Beneficial owner | 500,000 | – | 500,000 | 0.01% |
| Mr. Lau Wai Piu | Beneficial owner | 201,200 | – | 201,200 | 0.01% |

*Note:* Among the 1,200,739,301 Shares, 4,960,000 Shares represent interest of Mr. Lo on an individual basis; while 1,194,029,301 Shares represent interest of Golden Infinity Co., Ltd ("Golden"). The balancing of 1,750,000 Shares represent interest of Ms. Ku Ming Mei, Rouisa ("Mrs. Lo"). Accordingly, Mr. Lo is deemed to be interested in the Shares in which Golden and Mrs. Lo are interested by virtue of the SFO.

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

**(b) Substantial shareholders**

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the Shares or/and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

| Name | Long Position in Shares/Underlying Shares | Short Position in Shares/Underlying Shares | Capacity | Approximate percentage of the Company's total issued share capital |
|---|---|---|---|---|
| Mr. Liu Cheng Lin ("Mr. Liu") | 1,625,000,000 *(Note 1)* | – | Beneficial owner/ Interest of a controlled corporation | 26.87% |
| Puraway Holdings Limited ("Puraway") | 1,525,000,000 *(Note 1)* | – | Corporate | 25.21% |
| Ms. Ku Ming Mei, Rouisa | 1,201,429,301 *(Note 2)* | – | Beneficial owner/ Interest of spouse | 19.86% |
| Golden Infinity Co., Ltd. | 1,194,029,301 | – | Corporate | 19.74% |

| Name | Long Position in Shares/Underlying Shares | Short Position in Shares/Underlying Shares | Capacity | Approximate percentage of the Company's total issued share capital |
|---|---|---|---|---|
| Dr. Cheng Kar Shun | 383,170,000 *(Note 3)* | – | Interest of a controlled corporation/ Interest of spouse | 6.34% |
| Dragon Noble Group Limited ("Dragon") | 328,070,000 *(Note 3)* | – | Corporate | 5.42% |
| Ms. Ip Mei Hing | 383,170,000 *(Note 3)* | – | Interest of a controlled corporation/ Interest of spouse | 6.34% |
| Dato' Dr. Cheng Yu Tung | 498,972,602 *(Note 4)* | – | Beneficial owner/ Interest of a controlled corporation | 8.25% |
| Chow Tai Fook Nominee Limited ("CTF") | 493,972,602 *(Note 4)* | – | Corporate | 8.17% |
| Mr. Ng Chun Ping, Brendan | 424,724,442 | – | Beneficial owner/ Interest of controlled corporations | 7.02% |

*Notes:*

1. Mr. Liu Cheng Lin is interested in the entire issued share capital of the Puraway. By virtue of the SFO, he is deemed to be interested in the 1,525,000,000 Shares held by Puraway.

2. Ms. Ku Ming Mei, Rouisa is the spouse of Mr. Lo and accordingly, she is deemed to be interested in 1,201,429,301 Shares under the SFO.

3. Dr. Cheng Kar Shun is interested in the entire issued share capital of Dragon. By virtue of the SFO, he is deemed to be interested in the 328,070,000 Shares held by Dragon. The 55,100,000 Shares are owned by Ms. Ip Mei Hing, the spouse of Dr. Cheng Kar Shun.

4. Dato' Dr. Cheng Yu Tung is interested in the entire issued share capital of CTF. By virtue of the SFO, he is deemed to be interested in the 493,972,602 Shares held by CTF.

As at the Latest Practicable Date, save as disclosed above, so far as was known to the Directors, no other person had, or was deemed or taken to have an interest or short position in the Shares and 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 or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

## 3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing and proposed service contract with any member of the Group other than contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

## 4. 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 no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

## 5. COMPETING INTERESTS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors and their respective associates were considered to have any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

## 6. INTERESTS IN ASSETS OF THE GROUP

Since March 31, 2008, the date to which the latest published audited accounts of the Company have been made up, none of the Directors has, or has had, any direct or indirect interest in any assets which have been 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.

## 7. INTERESTS IN CONTRACTS OR ARRANGEMENT

None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

## 8. MATERIAL CONTRACTS

Within the two years immediately preceding the Latest Practicable Date, the following are contracts (not being contracts entered into in the ordinary course of business) entered into by the members of the Group which are or may be material:

(i) the Relevant Agreements;

(ii) The agreements dated April 18 and May 5, 2008 in relation to the disposal of the Basement and Ground Floor of the Bank of America Tower for HK$540,000,000;

(iii) the conditional subscription agreement dated January 31, 2008 entered into between the Company and Chow Tai Fook Nominee Limited ("CTF") for the subscription of HK$2,000,000,000 zero coupon convertible note due April 30, 2011 by CTF; and

(iv) the conditional agreement dated September 20, 2007 entered into between Asia Business Aviation Limited, an indirect wholly-owned subsidiary of the Company, as vendor and C Jet Limited as purchaser for the sale and purchase of the entire issued share capital of Beaubourg Holdings Inc. and the shareholder's loan.

## 9. EXPERTS AND CONSENTS

(i) The following are the qualifications of the experts who have given opinions and advice which are included in this circular:

| Name | Qualification |
|---|---|
| RSM Nelson Wheeler | certified public accountants |
| John T. Boyd Company | independent technical adviser |
| Yu Ming Investment Management Ltd | a licensed corporation under SFO permitted to be engaged in types 1, 4, 6 and 9 of the regulated activities as stipulated in the SFO |
| Greater China Appraisal Limited | independent valuer |

(ii) None of the experts set out above has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(iii) Each of the experts set out above has given and has not withdrawn its respective written consents to the issue of this circular, with the inclusion of its report and/or the references to its name and/or its opinion in the form and context in which they are included.

(iv) None of the experts set out above had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since March 31, 2008, the date to which the latest published audited financial statements of the Group was made up.

## 10. GENERAL

(i) The secretary of the Company is Mr. Tang Chi Kei, *CPA*. The qualified accountant of the Company is Mr. Kwok Ying Tung, Daniel, *ACCA*.

(ii) The principal place of business of the Company in Hong Kong is at Room 1502-5, New World Tower 1, 16-18 Queen's Road Central, Hong Kong.

(iii) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Standard Limited at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong.

(iv) The English text of this circular shall prevail over its Chinese text.

## 11. EXPLORATION AND MINING CONCESSIONS OF THE GROUP

The information of the Group's exploration and mining concession areas in western Mongolia for Coal, Ferrous and Non-ferrous resources are as follows:

| Licence (Licence no.) | Location | Mine Area (Hectare)* | Licence date | Licence valid period# | Remark |
|---|---|---|---|---|---|
| ***Initial Acquisition (announced on February 7, 2007)*** | | | | | |
| 1414A, 1640A, 4322A, 6525A, 11887A, 11888A, 11889A, 11890A, 11515X (titles in the name of a MEC Group company) | Khushuut, Khovd, western Mongolia | 34,000 | Various (please refer to circular of March 22, 2007) | 9 years for Exploration Licences (X) ▲ and 70 years for Mining Licences (A) ▲▲ | From exploration of over 600 hectares during 2007, MEC demonstrated 460 million tonnes of coal resources of which 181 million tonnes comprise premium coking coal resources.<br><br>149 million tonnes of in-place resources according to JORC standards are reported from further analytical work. The initial mine plan is being finalized and will be fine tuned over time prior to commencement of initial mining.<br><br>MEC expects to measure further coal resources with further exploration within 2008. |

| Licence (Licence no.) | Location | Mine Area (Hectare)* | Licence date | Licence valid period# | Remark |
|---|---|---|---|---|---|
| *Further Acquisition (announced on May 31, 2007)* | | | | | |
| 8976X, 8994X, 11628X, 11724X (titles in the name of a MEC Group company) | Gants Mod, western Mongolia | 32,000 | Various (please refer to circular of June 25, 2007) | 9 years for Exploration Licences (X) | MEC expects to measure resources following exploration commencing in 2008. The focus will be on prospects for metals deposits. The exploration plan is being finalized and will be fine tuned over time. |
| **Sub-total Hectares** | | **66,000** | | | |
| *Acquisition (announced on May 5, 2008)* | | | | | |
| 2913A | Olon Bulag, western Mongolia | 38 | January 24, 2007 | 70 years for Mining Licence (A) | There will be general reconnaissance for coal, ferrous and non-ferrous metal resources prior to exploration, if any, within 2008. This applies to the Exploration Licences below. |
| 7460X | Olon Bulag, western Mongolia | 276 | January 24, 2007 | 9 years for Exploration Licence (X) | As above. |
| 11719X | Gobi-Altai, western Mongolia | 216,644 | January 23, 2007 | 9 years for Exploration Licence (X) | As above. |
| 12126X | Gobi-Altai, western Mongolia | 41,386 | January 16, 2007 | 9 years for Exploration Licence (X) | As above. |
| 12315X | Gobi-Altai, western Mongolia | 3,249 | January 2, 2007 | 9 years for Exploration Licence (X) | As above. |
| 5390X | Khovd, western Mongolia | 1,415 | January 24, 2007 | 9 years for Exploration Licence (X) | As above. |
| **Sub-total Hectares** | | **263,008** | | | |
| **Total Hectares** | | **329,008** | | | |

* Note: 1 Hectare = 10,000 square metres. That is an area of 100m x 100m.

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

▲ (X) stands for Exploration Licence(s)

▲▲ (A) stands for Mining Licences

Apart from working actively towards commencement of commercial operation of the concession areas in western Mongolia, the Group is working with CNPC Daqing Petroleum (中國石油大慶石油管理局) to determine the feasibility and where feasible, explore for oil and gas in western Mongolia. Please refer to the announcement of the Company of December 17, 2007.

The Group further announced on March 5, 2008 that it entered into agreement to acquire 20% benefit of the resources under an exploration concession areas located in Ruoqiang County, Xinjiang Province PRC. The preliminary exploration work in 2007 over the exploration concession area has demonstrated 235,600 tons of tungsten trioxide ($WO_3$) resources and 49,000 tons of tin (Sn) resources. The completion is expected to take place prior to December 31, 2008.

Up to present, the Group has also acquiring minority interests under various projects. Please refer to recent announcements of MEC and information on MEC's website at www.mongolia-energy.com.

## 12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong, Room 1502-5, New World Tower 1, 16-18 Queen's Road Central, Hong Kong, up to and including the date of the SGM:

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

(ii) the annual report of the Company for the year ended March 31, 2008;

(iii) the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix II to this circular;

(iv) the letter of Independent Financial Adviser which is set out in this circular;

(v) the Technical Report by John T. Boyd Company which is set out in Appendix IV to this circular;

(vi) the Report from The Reporting Accountants by RSM Nelson Wheeler which is set out in Appendix II to this circular;

(vii) the valuation report prepared by Greater China Appraisal Limited, which is set out in Appendix IV to this circular;

(viii) the letters of consent referred to under the paragraph headed "Experts and consents" in this appendix;

(ix) a copy of the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(x) circulars of the Company dated October 10, 2007 and May 30, 2008.

# MONGOLIA ENERGY CORPORATION LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 276)

**NOTICE IS HEREBY GIVEN** that a special general meeting (the "meeting") of Mongolia Energy Corporation Limited will be held at McKinley Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on November 25, 2008 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

## ORDINARY RESOLUTION

"**THAT**

(a) the acquisition agreement ("**Acquisition Agreement**") dated March 5, 2008 as supplemented by the supplemental agreement dated October 27, 2008 ("**Supplemental Agreement**"), a copy of which has been produced to the meeting and marked "A" and "B" respectively and signed by the chairman of the meeting for the purpose of identification, entered into between Mr. Liu Cheng Lin ("**Mr. Liu**") and the Company whereby Mr. Liu conditionally agreed to sell 20% of the benefits relating to copper, tin, and multi-metals resources with explored tungsten and tin resources under the investment agreement dated March 3, 2008 ("**Investment Agreement**") and entered into between (i) 新疆欣業礦產開發有限公司 (Xinjiang Yinye Mineral Products Development Company Limited) ("**Concession Owner**"); (ii) Mr. Liu and; (iii) 新疆凱禹源礦業有限公司 (Xinjiang Kaiyue Yuan Mineral Company Limited) ("**Relevant Interest**") and the Company conditionally agreed to acquire the Relevant Interest, at the consideration of HK$1 billion: (1) HK$200 million to Mr. Liu as service fee; (2) reimbursement of RMB 100 million paid by Mr. Liu under the Investment Agreement to the Concession Owner for the purpose of development and commercial exploitation of the resources under the Investment Agreement; (3) payment of the balance by way of new Shares of the Company to be allotted at the closing price of the date of closing, subject to a maximum cap of 100 million new Shares of the Company, upon the terms and conditions therein contained, be and hereby approved, confirmed and ratified in all respects and the transactions contemplated under the Acquisition Agreement as supplemented by the Supplemental Agreement be and are hereby approved;

(b) the creation and issue of the new Shares subject to a maximum of 100 million new Shares subject to the terms of the Acquisition Agreement as supplemented by the Supplemental Agreement be and are hereby approved;

(c) the unwinding of the Joint Venture and waiver of any interest payment under the joint venture agreement dated August 31, 2007 and entered into between, among others, the Company and Mr. Liu be and is hereby approved; and

(d) the Directors be and are hereby authorized to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Acquisition Agreement and Supplemental Agreement, the issue of the new Shares as part of the Consideration or any of the transactions as contemplated under the Acquisition Agreement and Supplemental Agreement including any further extension of time as agreed by the parties, if any.

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

Hong Kong, October 31, 2008