MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 276)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

The directors (the "**Directors**") of Mongolia Energy Corporation Limited (the "**Company**") announce the condensed consolidated results of the Company and its subsidiaries (together collectively referred to as the "**Group**") for the six months ended 30 September 2013 (the "**Financial Period**") together with the comparative figures for the corresponding period in the previous year as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2013

		Six months ended 30 September	
		2013	2012
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	**498**	7,817
Cost of sales		**(1,012)**	(190,429)
Gross loss		**(514)**	(182,612)
Other income		**68**	5,073
Other gains and losses	*4*	**26,188**	2,467
Other expenses		**(24,043)**	(5,392)
Administrative expenses		**(107,739)**	(81,595)
Fair value gain on derivative component of convertible notes		**16,709**	269,221
Impairment loss on property, plant and equipment	*9*	**—**	(1,410,247)
Impairment loss on intangible assets	*9*	**—**	(194,515)
Impairment loss on development in progress	*9*	**—**	(6,525)
Impairment loss on amounts due from associates		**(5,695)**	(2,080)
Finance costs	*5*	**(236,868)**	(179,900)
Loss before taxation	*7*	**(331,894)**	(1,786,105)
Income tax expense	*6*	**—**	—
Loss for the period		**(331,894)**	(1,786,105)
Loss per share	*8*		
— basic (HK cents)		**(4.91)**	(26.44)
— diluted (HK cents)		**(4.91)**	(26.44)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2013

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the period	**(331,894)**	(1,786,105)
Other comprehensive expense		
Items that will not be reclassified to profit or loss:		
— Exchange difference arising on translation	**(1,502)**	(11,208)
Total comprehensive expense for the period	**(333,396)**	(1,797,313)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2013

	Notes	**30 September 2013** *HK$'000* **(unaudited)**	31 March 2013 *HK$'000* (audited)
Non-current assets			
Property, plant and equipment	*9*	**6,911,757**	6,850,079
Investment property	*9*	**—**	124,900
Intangible assets	*9*	**897,111**	913,073
Development in progress	*9*	**30,449**	30,449
Exploration and evaluation assets	*10*	**296,834**	292,690
Interests in associates		**—**	—
Available-for-sale financial asset		**—**	—
Other asset		**1,150**	1,150
Prepayments for exploration and evaluation expenditure		**10,458**	10,458
Deposits for property, plant and equipment		**—**	6,508
Deposits for prepaid lease payments		**15,914**	—
		8,163,673	8,229,307
Current assets			
Trade receivables	*11*	**—**	29
Inventories		**3,856**	5,183
Other receivables, prepayments and deposits		**28,767**	14,963
Held-for-trading investments		**52,262**	26,528
Amounts due from associates		**—**	9,270
Cash and cash equivalents		**46,295**	51,578
		131,180	107,551
Current liabilities			
Trade payables	*12*	**63,051**	68,941
Other payables and accruals		**139,236**	152,335
Convertible notes	*13*	**2,838,318**	741,279
Advances from a Director		**616,909**	470,013
Other loan	*14*	**311,215**	51,527
		3,968,729	1,484,095
Net current liabilities		**(3,837,549)**	(1,376,544)
Total assets less current liabilities		**4,326,124**	6,852,763
Non-current liability			
Convertible notes	*13*	**—**	2,206,661
Net assets		**4,326,124**	4,646,102
Financed by:			
Capital and reserves			
Share capital		**135,131**	135,131
Reserves		**4,190,993**	4,510,971
Total equity		**4,326,124**	4,646,102

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "**Interim Financial Reporting**" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In preparing the condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Company and its subsidiaries (together collectively referred to as the "**Group**"). As at 30 September 2013, the Group had net current liabilities of approximately HK$3,837.5 million at 30 September 2013 and incurred a loss of approximately HK$331.9 million for the period then ended.

Subsequent to the six months ended 30 September 2013, the convertible notes in the aggregate principal amount of HK$466,800,000 issued to Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, and Sculptor Finance (SI) Ireland Limited (the "**OZ Convertible Note**") were matured on 12 November 2013 and the Company has not redeemed the principal and repaid the interest thereon on their maturities, therefore, the Company is in breach of the redemption requirement under the OZ Convertible Note. A conditional agreement has been signed between the Company and the holders of OZ Convertible Note on 15 November 2013 to forbear from taking any legal action to enforce the Company's obligation to repay the principals and interests due under the OZ Convertible Note from 12 November 2013 to 12 May 2014 ("**Moratorium Period**"). The Company's default on redemption of the OZ Convertible Note also triggers the Company's potential early redemption obligation under other existing convertible notes. Accordingly, the liabilities relating to long term convertible notes have been reclassified as current liabilities as at 30 September 2013.

The Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future giving that: (1) Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and chairman of the Company, has provided facilities amounting to HK$1,900.0 million with maturity date on 31 March 2015, of which approximately HK$1,283.1 million was unutilised as at 30 September 2013; (2) the Company will exercise its endeavour to reach an acceptable debt restructuring with the holders of the convertible notes and other loan provider of the Company during the Moratorium Period; and (3) the holders of the convertible notes and/or other loan provider of the Company do not take any enforcement action against the Company in the foreseeable future. Accordingly, the Directors of the Company are of the opinion that it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the condensed consolidated interim financial statement.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment property and certain financial instruments which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2013.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009–2011 Cycle
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine

3. REVENUE AND SEGMENT INFORMATION

Based on information reported to the chief operating decision maker (i.e. the Executive Directors) for the purposes of resource allocation and performance assessment, the Group's only operating segment is the coal mining business. Revenue represents revenue arising on the sale of coking coal to external customers.

The segment revenue and results for the six months ended 30 September 2013 are as follows:

For the six months ended 30 September 2013

	Coal mining *HK$'000*	**Total** *HK$'000*
Segment revenue	**498**	**498**
Segment loss	**(88,254)**	**(88,254)**
Unallocated expenses *(Note)*		**(44,899)**
Other income		**29**
Other gains and losses		**27,084**
Fair value gain on derivative component of convertible notes		**16,709**
Impairment loss on amounts due from associates		**(5,695)**
Finance costs		**(236,868)**
Loss before taxation		**(331,894)**

Note:

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

The segment revenue and results for the six months ended 30 September 2012 are as follows:

For the six months ended 30 September 2012

	Coal mining	Total
	HK$'000	*HK$'000*
Segment revenue	7,817	7,817
Segment loss	(1,842,151)	(1,842,151)
Unallocated expenses *(Note)*		(34,238)
Other income		10
Other gains and losses		3,033
Fair value gain on derivative component of convertible notes		269,221
Impairment loss on amounts due from associates		(2,080)
Finance costs		(179,900)
Loss before taxation		(1,786,105)

Note:

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

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

	30 September 2013	31 March 2013
	HK$'000	*HK$'000*
Coal mining	**7,944,230**	7,884,854

4. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Fair value gain (loss) from held-for-trading investments	**25,734**	(4,940)
Fair value gain from investment property	**—**	8,018
Gain on disposal of property, plant and equipment	**22**	—
Net exchange gain (loss)	**432**	(611)
	26,188	2,467

5. FINANCE COSTS

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years:		
Interest expense:		
— convertible notes	**214,470**	166,388
— advances from a Director *(Note a)*	**20,916**	13,231
— other loan *(Note b)*	**1,482**	281
	236,868	179,900

Notes:

(a) The amount represents interest payable to Mr. Lo for short term unsecured advances to the Group. The interest expense was charged at the prevailing prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited ("**Prime Rate**") per annum.

(b) The amounts represent interest payable of HK$767,000 (2012: HK$281,000) to a short term unsecured loan with principal amount of HK$50.0 million carried interest at Prime Rate per annum and HK$715,000 (2012: Nil) to a short term unsecured loan with principal amount of HK$310.5 million carried interest at 3.5% per annum (Note 14).

6. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit (if any) for both periods.

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

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

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

7. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Amortisation of intangible assets	**15,962**	22,629
Depreciation of property, plant and equipment	**11,692**	22,138
Less: Loss on suspension of production (included in other expenses)	**(24,043)**	(5,392)
	3,611	39,375
Cost of inventories	**498**	13,521
Employee benefit expenses, including Directors' emoluments	**37,950**	25,792
Operating lease rentals in respect of land and buildings	**6,619**	11,085

8. LOSS PER SHARE

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

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	**(331,894)**	(1,786,105)

	Six months ended 30 September	
	2013	2012
	'000	*'000*
Number of shares		
Number of ordinary shares in issue for the calculation of basic and diluted loss per share	**6,756,548**	6,756,548

Note:

The denominators used are the same as those detailed above for both basic and diluted loss per share. The computation of diluted loss per share for both periods does not assume the exercise of share options or the conversion of the Company's outstanding convertible notes since their exercise would result in a decrease in loss per share.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY, INTANGIBLE ASSETS AND DEVELOPMENT IN PROGRESS

Property, Plant and Equipment

During the six months ended 30 September 2013, the Group spent approximately HK$68,321,000 (2012: HK$10,431,000) including HK$6,508,000 transfer from deposits for property, plant and equipment on construction in progress and HK$1,768,000 for the purchases of motor vehicles (2012: HK$51,030,000 on trucks).

Investment Property

During the six months ended 30 September 2013, the Group disposed of the investment property located in Beijing, the People's Republic of China (the "**PRC**") to an independent third party.

Intangible Assets

The intangible assets consist of software and exclusive right of use of the paved road. There are no significant capital expenditures spent in the intangible assets for the six months ended 30 September 2013 (2012: Nil).

Development in Progress

During the year ended 31 March 2009, an agreement was entered into between the Governor's Administration Office of Khovd Province of Mongolia (the "**Governor**") and MoEnCo LLC ("**MoEnCo**"), a wholly owned subsidiary of the Company, regarding the right of use of a road granted by the Governor to MoEnCo subject to certain conditions. Under the terms of the agreement, MoEnCo will construct a road at its own cost from the Group's mine areas in Khushuut, Western Mongolia to the Yarant border crossing with Xinjiang, PRC, with the construction permit granted to MoEnCo from the Ministry of Road, Transportation and Tourism of the Mongolian government. In return, MoEnCo enjoys the rights, which was granted at the date of the agreement, for the unrestricted use of the road for 30 years (the "**Approved Period**"). The road will be opened to public use subject to certain weight restrictions whereupon the Group may direct users including commercial users. The Group is also responsible for maintenance of the road during the Approved Period. The Group will use the road mainly for the purpose of transporting coal from its mine areas to its customers in the PRC. The construction of the 311 km road was completed and the formal approval from the Mongolian government on road commissioning was obtained during the year ended 31 March 2012.

There is no addition of development in progress for the six months ended 30 September 2013 (2012: Nil).

Impairment Loss Recognised on Khushuut Mine Related Assets

During the year ended 31 March 2013, the commercial production of Khushuut Coal Mine in Western Mongolia has been halted due to the dispute with the former sole mining contractor and the relevant mining services agreement had been terminated, and the Group was in the final rounds of negotiation with a new potential coal extraction contractor for the provision of coal extraction work as at 31 March 2013. During the six months ended 30 September 2013, the Group has found another new potential coal extraction contractor and is negotiating for the contract terms with the new potential coal extraction contractor as at 30 September 2013.

At the end of the reporting period, the Group engaged an independent qualified professional valuer (the "**Independent Valuer**"), who is not connected with the Group, to determine the recoverable amount of its property, plant and equipment, intangible assets and development in progress related to the Khushuut mine operations (collectively referred to as "**Khushuut Related Assets**"). For the purposes of impairment testing, the Khushuut Related Assets are treated as a cash generating unit, which represents the Group's coking coal mining operation in Western Mongolia. The recoverable amount of the Khushuut Related Assets has been determined based on a value in use calculation. The Directors instructed the Independent Valuer to use the information and assumptions, including the cost structure and production capacity provided by the new potential coal extraction contractor found during the current interim period for calculation. Other key assumptions used in the calculation including the timing of recommencement of commercial coal production, forecasted selling price, estimated period of production, and discount rate. The recoverable amount of the Khushuut Related Assets determined by the Independent Valuer is higher than their carrying values, accordingly, no impairment is required during the current interim period.

During the six months ended 30 September 2012, impairment losses amounting HK$1,611,287,000 were recognised against respective assets on a pro-rata basis with reference to their carrying amount. The main reason for such a significant impairment loss being recognized for the six months ended 30 September 2012 was due to the temporary suspension of coal commercial production.

Mining Prohibition Law and the list of deposits of strategic importance in Mongolia

On 16 July 2009, the Parliament of Mongolia enacted the Mining Prohibition Law (the "**MPL**") which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas and areas adjacent to rivers and lakes (the "**Defined Prohibited Areas**"). Pursuant to the MPL, the Mongolian government was supposed to define the boundaries of the relevant prohibited areas by 16 October 2009 but it had not done so by the prescribed time. It also states that any previously granted licences that overlap the Defined Prohibited Areas will be terminated within five months following the enactment of the law.

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

As at 30 September 2013, four mining concessions (licence nos. 2913A, 4322A, 11888A and 15289A) owned by MoEnCo have overlapping areas described under the MPL, where mineral exploration and mining are prohibited. The Group's legal advisers have confirmed that their interpretation of the relevant legislation is that, following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licenced area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. There was also no revocation of these licences as at 30 September 2013. The management also considers that even if the licences were revoked due to the MPL, the Mongolian government would pay a reasonable compensation to the Group.

In addition, the Group received a letter dated 6 December 2012 from the Mining Ministry of Mongolia for requesting information of its Khushuut Coal Mine for assessment of placing the Khushuut Coal Mine into the list of deposits of strategic importance in Mongolia ("**Strategic Deposits**"). The Minerals Law states that a mineral deposit is of strategic importance if a deposit may have a potential impact on national security, economic, and/or social development of the country at regional and/or national levels, or that is capable of producing greater than 5% of the gross domestic product of any given year. Under the said Minerals Law, the size of the government participation is determined largely by the level of state funding which had been provided for the exploration and development of any deposit, with the government of Mongolia entitled to participate up to 50% in the event that there has been a state funding of such deposit and up to 34% if there has not. In the event a Strategic Deposit is ruled, the Mongolian government will negotiate with the entity concerned as to the mode or percentage of the government's participation and it will depend on the results of individual negotiations. It may take the form of production or profit sharing or some other arrangement negotiated between the licence holder and the Mongolian government. In June 2013, the Mongolian government has announced that they intend to add the Khushuut Coal Mine into the list of Strategic Deposits for consideration by the Parliament of Mongolia. The Directors consider that the Khushuut Coal Mine does not fit the selection criteria outlined by the Minerals Law and the Group has issued a written objection to the Mongolian government, however the extent of the impact to the Group cannot be ascertained at this stage.

Hence, the management concluded that there is no further impairment, other than those provided in relation to Khushuut Related Assets as at 31 March 2013. The implementation of the MPL and/or the Mineral Laws represents a significant uncertainty to the Group, which might have a significant effect on the condensed consolidated financial statements of the Group. If the Group's affected mining concessions were revoked due to the MPL and the compensation received by the Group significantly less than the carrying amount of the related assets and/or the Khushuut Coal Mine is added to the list of the Strategic Deposits, the Group would incur a significant impairment loss on the related assets.

10. EXPLORATION AND EVALUATION ASSETS

	Mining and Exploration Rights *(Note a)* *HK$'000*	Others *(Note b)* *HK$'000*	Total *HK$'000*
COST			
At 1 April 2012	285,676	13,530	299,206
Additions	—	8,666	8,666
Written off	—	(15,182)	(15,182)
At 31 March 2013	**285,676**	**7,014**	**292,690**
Additions	**—**	**4,144**	**4,144**
At 30 September 2013	**285,676**	**11,158**	**296,834**

Notes:

(a) The balance of mining and exploration rights as at 30 September 2013 solely represents an exploration concession of around 2,986 hectares in Western Mongolia for ferrous resources. This iron ore exploration concession might be affected by the MPL under the preliminary list. Zvezdametrika LLC ("**Z LLC**"), a subsidiary of the Company which owns the iron ore exploration concession, received a notice from the MRAM during the year ended 31 March 2010 about the potential revocation of its exploration concession under the MPL and Z LLC was requested to submit the estimated compensation for termination of licences with supporting documents. After taking legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRAM's request. The Group's legal advisers have confirmed that their interpretation of the relevant legislation is that, following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licenced area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. According to the best knowledge of the management, there was no revocation of its licences as at 30 September 2013. The management also considered that even if the licences were revoked due to the MPL, the Mongolian government would pay a reasonable compensation to the Group. Hence, the management concluded that there is no impairment on the corresponding exploration and evaluation assets as at 30 September 2013 amounting to approximately HK$285.7 million. The implementation of the MPL represents a significant uncertainty to the Group, which might have a significant effect on the condensed consolidated financial statements of the Group. If the Group's iron ore exploration concession is revoked due to the MPL and the Group is paid compensation significantly less than the carrying amount of this concession, the Group would incur a significant impairment loss on the corresponding exploration and evaluation assets.

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

As at 30 September 2013, the Group confirmed with the Ministry of Environment and Green Department of Mongolia that another 8 exploration/mining concessions are overlapping with the forest areas or water basin protection zones therefore might potentially be affected by the MPL. However, the management considers this would not have a significant financial impact to the Group.

11. TRADE RECEIVABLES

	30 September 2013 *HK$'000*	31 March 2013 *HK$'000*
Trade receivables	—	29

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

	30 September 2013 *HK$'000*	31 March 2013 *HK$'000*
Current to 30 days	—	—
31 to 60 days	—	4
61 to 90 days	—	4
Over 90 days	—	21
	—	29

12. TRADE PAYABLES

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

	30 September 2013 *HK$'000*	31 March 2013 *HK$'000*
Current to 30 days	**3,719**	6,324
31 to 60 days	—	852
61 to 90 days	—	569
Over 90 days	**59,332**	61,196
	63,051	68,941

13. CONVERTIBLE NOTES

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

	Debt component		Derivative component		Total	
	30 September 2013	31 March 2013	**30 September 2013**	31 March 2013	**30 September 2013**	31 March 2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of the period/year	**2,851,129**	2,233,466	**96,811**	285,208	**2,947,940**	2,518,674
Initial recognition	**—**	284,715	**—**	114,590	**—**	399,305
Interest charge	**214,470**	353,717	**—**	—	**214,470**	353,717
Amortisation of transaction cost	**3,117**	6,053	**—**	—	**3,117**	6,053
Fair value gain on derivative component	**—**	—	**(16,709)**	(302,987)	**(16,709)**	(302,987)
Interest paid	**—**	(26,822)	**—**	—	**—**	(26,822)
Transfer to other loans *(Note 14)*	**(310,500)**	—	**—**	—	**(310,500)**	—
At end of the period/year	**2,758,216**	2,851,129	**80,102**	96,811	**2,838,318**	2,947,940

Analysed for reporting purposes as:

	30 September 2013	31 March 2013
	HK$'000	*HK$'000*
Current liabilities *(Note)*	**2,838,318**	741,279
Non-current liabilities	**—**	2,206,661
	2,838,318	2,947,940

Note:

The amount classified as current liabilities represents coupon interest payable to the convertible noteholders and the carrying value of convertible notes due within one year. In addition, as a result of the occurrence of the event of default as discussed in Note 1, the liabilities relating to the HK$200 million 5% convertible note issued to Golden Infinity Co., Ltd and HK$200 million 5% convertible note issued to Chow Tai Fook Nominee Limited have been reclassified as current liabilities.

HK$300 million 3.5% convertible note issued to Golden Infinity Co., Ltd with maturity date 6 September 2013 (the "3.5% GI Convertible Note")

The 3.5% GI Convertible Note was matured on 6 September 2013 and the Company has been in negotiation of the terms of refinancing with the noteholder, including the issue of a new convertible note to replace the GI Convertible Note. Before reaching the commercial terms of the new convertible note on a mutually acceptable basis, the noteholder has agreed that the outstanding balances could be extended as a short term unsecured loan and the Company has to repay the outstanding principal and interest due under the 3.5% GI Convertible Note on 13 May 2014 at an annual interest rate of 3.5%. As such, the amount of HK$310,500,000 was reclassified as other loans (Note 14) at 30 September 2013.

HKD466.8 million 3.5% convertible notes issued to Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited with maturity date 12 November 2013 (the "OZ Convertible Note")

The OZ Convertible Note was matured on 12 November 2013 and the Company has not redeemed the principal and repaid the interest thereon on its maturity, therefore, the Company is in breach of the redemption requirement under the OZ Convertible Note. A conditional agreement was entered into between the Company and the holders of OZ Convertible Note on 15 November 2013 to forbear from taking any legal action to enforce the Company's obligation to repay the principals and interests due under the OZ Convertible Note until 12 May 2014.

The Company's default on redemption of the OZ Convertible Note also triggers the Company's potential early redemption obligation under other existing convertible notes. The Company will exercise its endeavour to reach an acceptable debt restructuring plan with all the convertible noteholders and other loan provider (Note 14). If the Company fails to reach the terms of the debt restructuring with the holders of the convertible notes and other loan provider and they take enforcement action against the Company, material adverse impact may occur on the operations and financial position of the Group.

14. OTHER LOAN

During the six months ended 30 September 2013, HK$310.5 million was reclassified from convertible notes to other loan due to the maturity of the 3.5% GI Convertible Note (Note 13). The loan is unsecured, bears interest at a fixed rate of 3.5% per annum and is repayable on 13 May 2014.

During the year ended 31 March 2013, the company obtained a short-term unsecured loan with principal amount of HK$50.0 million carried interest at Prime Rate per annum and it was repaid on 20 August 2013.

15. CONTINGENT LIABILITIES

During the year ended 31 March 2013, the Company and MoEnCo disputed the scope of services provided by the former sole mining contractor and disagreed on the amount charged and the quality of services provided under the former mining contract and accordingly, refused to settle the contractor fees as claimed by former sole mining contractor.

The former sole mining contractor issued two writ of summons on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK$93.7 million of which approximately HK$50.0 million has been provided for in the condensed consolidated financial statements as at 30 September 2013. Based on the opinion provided by our legal counsel, the Directors consider that the payment of the remaining balance is not probable. Up to the date of this announcement, the dispute is still in progress.

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the Financial Period (2012: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Our principal project is the Khushuut Coking Coal Project in Western Mongolia.

During the Financial Period, our commercial coal production came to a halt and we were focusing on the construction of the coal screening infrastructures.

RESULTS ANALYSIS

Revenue

During the Financial Period, the Group did not undergo any commercial mining operations. However, it sold 15,300 tons (2012: 33,800 tones) of raw coal from the inventory stored at Xinjiang and generated revenue of HK$0.5 million (2012: HK$8.6 million).

Other gains and losses

The fair value gain of HK$25.7 million (2012: Loss of HK$4.9 million) from the Group's investment in listed securities in Hong Kong gave a boost to the other gains and losses during the Financial Period.

Other expenses

During the Financial Period, the commercial coal production came to a halt thus all expenses in the amount of HK$24.0 million in relation to the Khushuut Mine Site were grouped under loss on suspension of production and included in other expenses.

Administrative expenses

The administrative expenses increased HK$26.1 million because of the following main reasons:

(i) Equity-settled share-based payments for the amount of HK$13.4 million (2012: Nil) relating to the share options granted during the Financial Period; and

(ii) During the Financial Period, the Group disposed of its investment property in Beijing (the "**Property**") to an independent third party. The Group was responsible for all taxes of the Property up to the date of the completion of the disposal except for taxes arising from the disposal transaction. The relevant local PRC tax authority ruled that the PRC property tax liabilities, penalty and surcharge for late payment up to the date of completion of the disposal relating to the Property were HK$6.6 million altogether.

Impairment review on Khushuut Mine Related Assets ("Mine Assets")

An impairment analysis with the assistance of an independent valuer was undertaken and an updated mine life projection was prepared. The mine life projection reflected the prevailing economic situations, market conditions, and best estimations on the future development of the Khushuut Coal Mine made by the management. The recoverable amount of the Mine Assets was higher than their carrying values, accordingly, no impairment loss was required during the Financial Period (2012: Impairment loss of HK$1.6 billion).

The independent valuer adopted a value in use calculation to obtain the fair value of the Mine Assets as at 30 September 2013. Based on this value in use model, the income-based approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits. The factors taken into account in arriving at the future economic benefits, including, among others, (a) the selling prices and quantity of existing and future coal products; (b) existing and projected cost of sales (including but not limited to extraction costs, blasting costs, labour costs, and fuel costs, etc.), transportation costs, and others; (c) existing and projected selling and administrative expenses; and (d) capital expenditures (including but not limited to the washing plant in Xinjiang and the dry processing plant in Mongolia). The major changes comparing to previous valuation as at 31 March 2013 were:

(i) The discount rate was 17.06% (At 31 March 2013: 17.6%). The decrease in 30 September 2013 was due to the slight improvement in market environment thus reduced related risk premium and;

(ii) Estimated mining costs were revised downward based on latest information from the potential mining contractor.

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

BUSINESS REVIEW

Khushuut Coking Coal Project

Khushuut Coal Resources

We have not conducted any coal resources update during the Financial Period. Our JORC in-place resources remain the same, i.e. approximately 141.5 million tonnes (44.5 million tonnes of measured resources and 97.0 million tonnes of indicated resources). The quality of the Khushuut coal is low volatile, low sulfur, with widely variable caking properties.

Coal sales and Operation

During the Financial Period, we sold 15,300 tonnes of raw coking coal to our customers in Xinjiang, PRC.

The Group has been under a very difficult operating environment and continued to be affected by both internal and external factors, including technical issues in operation, the sluggish coal market environment in the PRC and the political and strategic deposits issues in Mongolia.

With respect to the coal market environment in the PRC, although the coal price became steady during the Financial Period, the demand of coal still remained sluggish generally. We believe the demand will continue to be affected by a variety of factors including global economic performance. We will closely monitor the market developments to adjust our planning and development strategies.

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

The building of the Dry Processing Plant has almost been completed. It is pending the set up of the power supply system, and we have ordered the power supply system from the PRC.

The construction of the Washing Plant is divided into several phases:

— The first phase is the civil construction of the main plant building which has already been commenced. The frame of the main plant building has been completed. It is now under installation of the windows and outer wall structures;

— The second phase is the civil construction of the living quarters and construction has been commenced. The building frame has been completed, and the internal decoration will be carried out early next year;

— The third phase is the installation of the washing plant equipment and facilities, and this is planned to commence after completion of certain parts of civil construction of the main plant building;

— The fourth phase is the installation of the high voltage electricity supply for the plant area; and

— The fifth phase is the installation of the low voltage electricity supply for the plant area and the power control system (including the installation of equipment for the raw coal re-handling yard).

Due to setting in of the winter, completion of the Dry Coal Processing System and the Washing Plant will be further delayed. These will unavoidably postpone the resumption of commercial coal production to next year.

Customers

As a result of the halt of commercial coal production and the continued softening of the coking coal market conditions in the PRC, we did not actively seek out new markets and customers during the Financial Period.

Selection of Coal Extraction Contractor

Due to progress delay of the infrastructure construction and consideration of the commercial terms, we have yet to appoint a coal extraction contractor.

Strategic Deposits

MoEnCo received a letter in December 2012 from the Mining Ministry of Mongolia for requesting information of its Khushuut Coal Mine for assessment of placing the Khushuut Coal Mine into the list of deposits of strategic importance in Mongolia ("**Strategic Deposits**").

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

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

It came to our knowledge in June 2013 that the Mongolian government has proposed to include the Khushuut Coal Mine in the list of Strategic Deposits for consideration by the Parliament of Mongolia. The Minerals Law does not specify a timeframe in which the government must submit the proposal to the Parliament of Mongolia. Whether and when the Khushuut Coal Mine will be ruled as a Strategic Deposit is not known for the time being as the Parliament of Mongolia makes the final decision.

It has no major progress since the last reporting. We will keep the shareholders informed of the developments.

Licences and Exploration Activities

We have in total ten mining and nine exploration licences wholly owned by us in Mongolia through our indirect wholly-owned subsidiaries. The areas covered by the licences are approximately 151,449 hectares. Three of the mining licences (licence nos. 2913A, 11889A, and 11890A) have been suspended by the Mongolian authority. The suspension of these licences does not have any material impact on our asset value and operation.

Pursuant to our costs cutting policies in response to the current market conditions, only minimal exploration works were conducted for the purpose of licence compliance with the Mongolian laws during the Financial Period. We will continue our prudent expenditure policies on exploration until we resume commercial coal production.

As there have been no material changes in our licence information since the last Annual Report, please refer to the paragraph of "Exploration and Mining Concessions of the Groups" in our Annual Report for further details.

Legal and Political Aspects

As previously reported, the Mongolian government adopted a number of legislations including the Regulation of Foreign Investment in Business Entities of Strategic Importance (the "**Foreign Investment Law**") and the Law of Mongolia on the Prohibition of Minerals Exploration and Mining in Headwater Areas, Protected Zones for Water Reserves and Forest Lands (the "**MPL**") which have the effect of shaking investors' confidence on investing in Mongolia.

The Foreign Investment Act restricted the sale or transfers of major stakes in strategic sectors such as mining and finance industries unless prior approval from the Mongolian Parliament or government was obtained. The MPL prohibited mining and exploration activities to be carried out in headwater areas, protected zones for water reserves and forest land, and the licences overlapping these areas may have the possibility of reducing size or revoked by the Mongolian government.

In order to restore the investors' confidence and provide incentives to invest in Mongolia, a special parliament session took place in September 2013 to discuss the reform of various legislations that have the effect of curbing the Mongolian economy. Such discussions included, among others, the replacement of the Foreign Investment Act which restricted the transfer of interest in the strategic sectors in Mongolia and some of the tax-favoured policies.

Investment Act

The Parliament of Mongolia enacted the Investment Act of Mongolia on 3 October 2013 (the "**Investment Act**") and came into force on 1 November 2013.

The Investment Act and its corresponding Implementing Regulation were passed as a way to re-attract foreign investments following immense decrease in foreign direct investments as a result of the Strategic Sectors Act mentioned below.

It has the effect of repealing (a) the *Foreign Investment Act*, enacted on 10 May 1993 (the "**FIA 93**"); and (b) the *Regulation of Foreign Investment into Companies operating in Sectors of Strategic Importance Act*, enacted on 17 May 2012 (the "**Strategic Sectors Act**").

The essentials of the Investment Act include, among others:

(a) Under the Investment Act, private investors are not required to obtain Cabinet or any other governmental approval in order to acquire Mongolian companies operating in strategic sectors. Therefore, private investors can freely transfer their investments in the mining sectors without the approval of the government;

(b) However, Foreign State Owned Enterprises ("**FSOE**") are required to obtain approval from the state central administrative authority handling investments (currently the Ministry of Economic Development) should such FSOE desire to acquire 33% or more equity in a company operating in any of the strategic sectors.

Mining Prohibition Law

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

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

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

On 5 June 2012, the government of Mongolia adopted Resolution No. 194, under which the boundaries for headwater areas, water reserve protected zones, and forested lands were determined and set. Our Mongolian legal advisers are of the view that the coordinates and the boundaries are now final.

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

In September 2013, the Parliament of Mongolia convened an extraordinary plenary session to discuss and consider various new laws and amendments on the current laws including the MPL. This has the intention to relax the existing requirements that the licence holders could still operate in the affected areas provided applications have been made to the government and approved by it. However, due to a protest by a civil movement group and a minor unrest in connection therewith, the amendment to the MPL has been put on hold in order to conduct further research in respect of the amendments.

Dispute with Leighton

The dispute between the Group and Leighton arises out of, among others, the invoices amount charged by Leighton on MoEnCo and the quality of services rendered by Leighton.

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

There are two writs of summons taken out by Leighton claiming the Company for MNT12.2 billion (Mongolian Tugrik) (approximately HK$57.3 million) and MNT7.7 billion (approximately HK$36.4 million) respectively.

Subsequent to the issue of the first writ, Leighton took out a summary application in April 2013 by asking the Court to decide in its favour that the Company Guarantee is an on-demand guarantee and we should pay Leighton notwithstanding any underlying dispute between MoEnCo and Leighton. The hearing was heard on 10 July 2013 and the Court ruled in our favour that the Company guarantee is not an "on-demand" guarantee. Our liability to pay arises only when the Court has decided that MoEnCo should pay after the full trial on the dispute.

In September 2013, we received the mediation notices from Leighton. According to the mediation notices, Leighton has proposed a stay of proceedings for three months pending the mediation process. We have filed a reply that we agree to the mediation proposed by Leighton and the stay of proceedings for three months. The choice of the mediator and the venue are still under negotiation. We will work with our legal advisers for the best interests of the Company.

Others

Disposal of Investment Property

During the Financial Period, the Company entered into agreements with an independent third party purchaser for the disposal of a property situated at Beijing at a consideration of RMB100,000,000. The proceeds of approximately HK$124,900,000 from the disposal of the property had been applied towards repayment of loans and for use as general working capital of the Group.

Expiry of the convertible note issued to Golden Infinity Co., Ltd.

The convertible note issued to Golden Infinity Co., Ltd on 6 September 2010 in the principal amount of HK$300,000,000 was expired on 6 September 2013. Golden Infinity Co., Ltd has agreed that the principal and interest under the said convertible note are not required to be repaid before 13 May 2014.

Expiry of the convertible notes issued the Sculptor Finance Group

The convertible notes issued to Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, and Sculptor Finance (SI) Ireland Limited on 12 November 2010 in the aggregate principal amount of HK$466,800,000 were expired on 12 November 2013.

The holders of the said convertible notes have agreed to grant a six-month moratorium up to 12 May 2014 on repayment of principals and interests due under the said convertible notes. The Company will exercise its endeavour to reach an acceptable debt restructuring plan with all the noteholders and other loan provider during the moratorium period.

FINANCIAL REVIEW

1. Liquidity and financial resources

During the Financial Period, the Group's capital expenditures and working capital were mainly funded by short terms loans granted by Mr. Lo, chairman of the Company and the sale proceeds from the disposal of an investment property in Beijing, PRC.

The borrowings of the Group as at 30 September 2013 comprised convertible notes, other loan and advances from a Director amounting to HK$3,766.4 million (At 31 March 2013: HK$3,469.5 million). The effective interest rates of these borrowings were in the range from 3.5% to 18.22%. Of the total borrowings, all of the total borrowings (At 31 March 2013: 36.4%) was repayable within 1 year (At 31 March 2013: 63.6% of total borrowings was repayable within 2 to 3 years).

At the end of the Financial Period, the cash and bank balances were HK$46.3 million (At 31 March 2013: HK$51.8 million).

The liquidity ratio as at 30 September 2013 was 0.03 (At 31 March 2013: 0.07).

As at 30 September 2013, the Group's current liabilities exceeded its current assets by approximately HK$3,837.5 million (At 31 March 2013: HK$1,376.5 million). As disclosed in our 2013 Annual Report, the Group was facing a very difficult operating environment by reasons of both internal and external factors, including technical issues in operation, the sluggish coal market environment in the PRC and the political and strategic deposits issues in Mongolia. The commercial coal production came to a halt pending, among others, the construction of coal screening infrastructures in the Khushuut Mine Site and in Xinjiang, PRC respectively. These adverse factors were still subsisting during the Financial Period. As such, the Group's liquidity position was worsening during the Financial Period. A more detailed account of the financial position of the Group was depicted in Note 1 to the condensed consolidated financial statements.

The Group will use its best endeavor to address the liquidity issues including but not limited to proposing an acceptable debt restructuring plan with all existing noteholders and other loan provider. In the absence of unforeseen circumstances, the Directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 30 September 2013 based on several reasons fully explained in Note 1 to the condensed consolidated financial statements. If the Company is unable to seek new funding or generate sufficient liquidity from its operations to satisfy its obligation or reach an acceptable debt restructuring plan with all noteholders and loan provider, it may have a material adverse effect on our liquidity and may impair the Group's ability to continue as a going concern.

2. Investment in listed securities

As at 30 September 2013, the Group's held-for-trading investments were comprised of equity securities listed in Hong Kong with a fair value of HK$52.3 million (At 31 March 2013: HK$26.5 million).

3. Charge on Group's assets

There was no charge on the Group's assets as at 30 September 2013 (At 31 March 2013: Nil).

4. Gearing ratio

As at 30 September 2013, the gearing ratio of the Group was 0.45 (At 31 March 2013: 0.42) which was calculated based on the Group's total borrowings to total assets.

5. Foreign exchange

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

6. Contingent liabilities

The details of the Group's contingent liabilities as at 30 September 2013 are disclosed in Note 15 to the condensed consolidated financial statements.

7. Material disposal

During the Financial Period, the Company disposed of an investment property situated at Beijing, PRC to an independent third party at the consideration of approximately HK$124.9 million.

OUTLOOK

As our high indebtedness level is an issue to our project development in the short run, our priority will be to reach an acceptable debt restructuring with all the convertible noteholders and other loan provider of the Company. This will relieve the financial pressure of the Group when the commercial coal production resumes. The resumption of our commercial coal production depends on a number of factors including coal market environment, the political climate in Mongolia, Strategic Deposits issue, satisfactory debt restructuring, and readiness of the screening infrastructures. We will continue the development of our screening infrastructures in the coming months at our best endeavour.

We have adopted tight financial measures in response to our internal factors and the external environment. Pursuant to our costs cutting policies, among others, only minimal exploration works will be conducted for licence compliance as required under the Mongolian laws, and the number of our staff in Mongolia will also be reduced. We will continue our prudent expenditure policies and keep monitor the market closely for its developments.

If we are unable to reach an acceptable debt restructuring with all convertible noteholders and other loan provider or to implement our commercial coal production as planned or to have sufficient financial resources available for our operation, these will have a material adverse impact on the trading and financial position of the Group.

The political climate in Mongolia has shown improvement recently. This is evidenced by the newly revised Investment Act removing the restrictions on transfer of interests in the mining sectors and some tax stabilization policies. We hope the Mongolian government will continue its move to improve the investment climate in Mongolia.

Our principal market is in the PRC. Although being affected by the global economy, we are, however, optimistic that the policies of the PRC including promoting economic restructuring through reforms, reducing reliance on exports, ongoing infrastructure projects will continue to promote the Chinese economy and gradually support the recovery of the coal market. Hence, we maintain a positive view on our long term prospects despite the short to medium term hardships.

HUMAN RESOURCES

As at 30 September 2013, the Group employed 312 full time employees in Hong Kong, Mongolia, and the PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on periodic basis. Apart from the retirement schemes, year-end bonus, and share options are awarded to the employees according to the performance of the Group, assessment of the individual's performance, and industry practice. Appropriate training programs are also offered for staff training and development.

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

Neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities during the Financial Period.

CORPORATE GOVERNANCE

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

During the period ended 30 September 2013, the Company had applied the code provisions of the Corporate Governance Code as set out in Appendix 14 (the "**CG Code**") to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and complied with the code provisions of the CG Code except for the deviations as mentioned below:

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

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

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

   The Company has not set up a nomination committee as required. The Board considers that it should be the responsibility of the full Board to review these matters and make decisions from time to time. The Board has already set out the criteria for selection of a Director under its internal policy. In reviewing and assessing the composition of the Board, a range of diverse perspectives will be considered, including without limitation, gender, age, culture and educational background, professional experience, skills, length of service and other qualities. Besides, according to the Bye-laws of the Company, any newly appointed Directors are required to offer themselves for re-election at the next general meeting. Furthermore, the Director re-election process participating by the shareholders in the annual general meetings ("**AGM**") and the rights of shareholders to nominate a Director both ensure a right candidate to be selected to serve the Board effectively.

iii. Code provision E.1.2 stipulates that the chairman of the Board should attend AGM.

   Due to another business engagement, the Chairman did not attend the 2013 AGM. An Executive Director took the chair of the 2013 AGM and answered questions raised from the shareholders. The AGM provides a channel for communication between the Board and the shareholders. A member of the Audit Committee, who is also a member of the Remuneration Committee, was also present and available to answer questions at the 2013 AGM. Other than the AGM, the shareholders may communicate with the Company through the contact information listed on the Company's website.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

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

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

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

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

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors. Mr. Lau Wai Piu is the chairman of the Audit Committee. He has appropriate professional qualifications, accounting and related financial management expertise.

The Audit Committee has reviewed the unaudited interim financial information of the Group for the six months ended 30 September 2013.

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

Hong Kong, 25 November 2013

As at the date of this announcement, the Board comprises six Directors, of which Mr. Lo Lin Shing, Simon and Ms. Yvette Ong are Executive Directors, Mr. To Hin Tsun, Gerald is a Non-executive Director, and Mr. Peter Pun OBE, JP, Mr. Tsui Hing Chuen, William JP, and Mr. Lau Wai Piu are Independent Non-executive Directors.