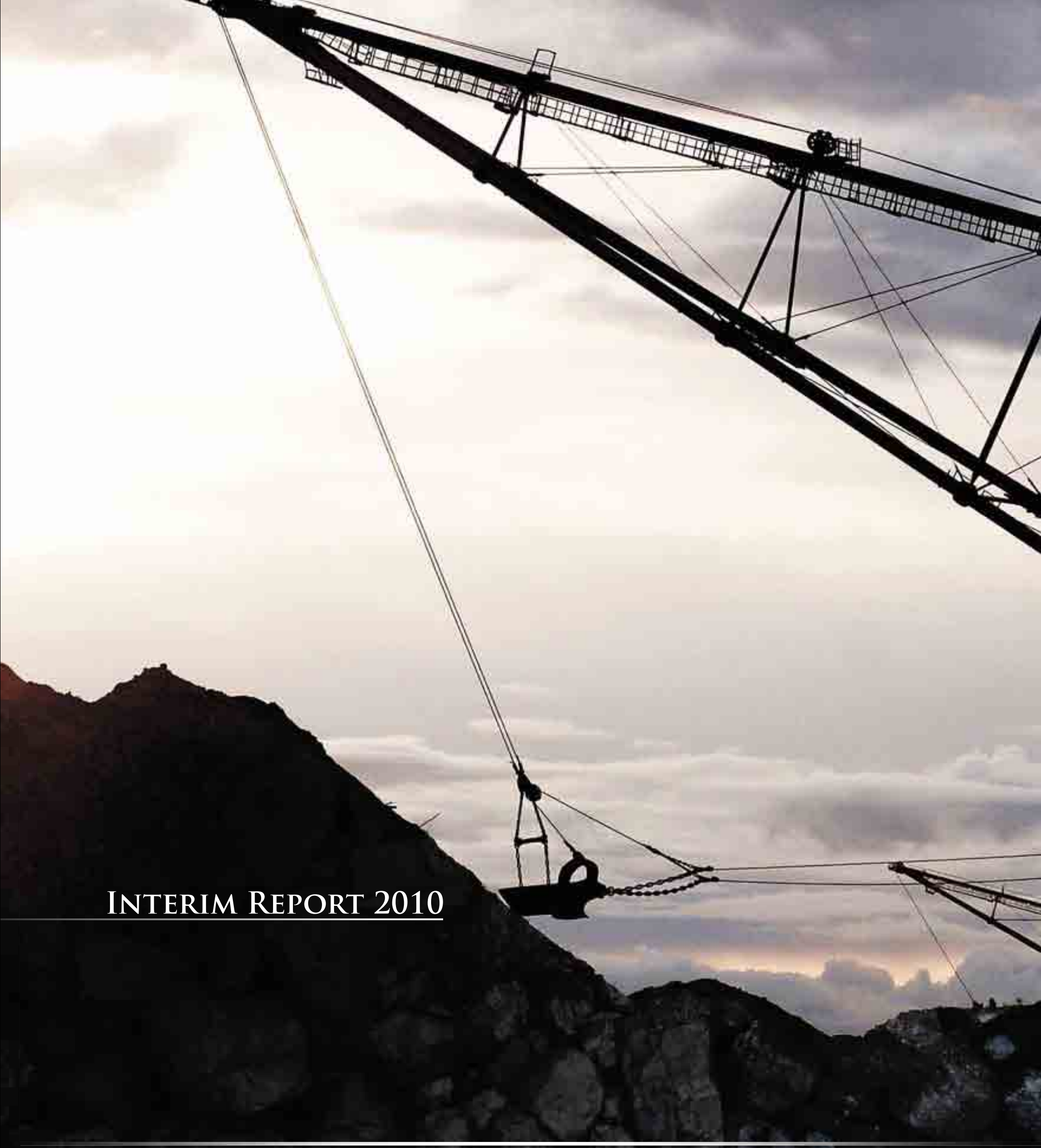

INTERIM REPORT 2010

MONGOLIA INVESTMENT GROUP LIMITED

蒙古投資集團有限公司

(formerly known as Ming Hing Waterworks Holdings Limited)
(incorporated in the Cayman Islands with limited liability)
(Stock code: 402)

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. YUEN Chow Ming *(Chairman)*
Mr. YUEN Wai Keung
(Deputy Chairman and Chief Executive Officer)
Mr. SO Yiu Cheung
(Deputy Chairman)
Mr. HO Hin Hung, Henry
Mr. CHEUNG Chi Man, Dennis
Mr. LIM Siong, Dennis
(Appointed on 17 June 2010)
Mr. WONG Tak Chung
(Appointed on 17 June 2010)
Mr. ENEBISH Burenkhuu
(Appointed on 17 June 2010)

Independent Non-Executive Directors

Mr. CHAN, Sai Kit Kevin
(Appointed on 1 November 2010)
Professor LEUNG Yee Tak
(Resigned on 31 October 2010)
Mr. LIAO Cheung Tin, Stephen
Mr. TAM Tsz Kan
(Appointed on 1 October 2010)
Mr. WONG Lap Shek, Eddie
(Resigned on 30 September 2010)

AUTHORISED REPRESENTATIVES

Mr. YUEN Wai Keung
Mr. SO Yiu Cheung

COMPANY SECRETARY

Mr. CHEUNG Chi Man, Dennis

AUDIT COMMITTEE

Mr. TAM Tsz Kan *(Chairman)*
(Appointed on 1 October 2010)
Mr. WONG Lap Shek, Eddie *(Chairman)*
(Resigned on 30 September 2010)
Mr. CHAN, Sai Kit Kevin
(Appointed on 1 November 2010)
Professor LEUNG Yee Tak
(Resigned on 31 October 2010)
Mr. LIAO Cheung Tin, Stephen

NOMINATION COMMITTEE

Mr. YUEN Wai Keung *(Chairman)*
Mr. CHAN, Sai Kit Kevin
(Appointed on 1 November 2010)
Professor LEUNG Yee Tak
(Resigned on 31 October 2010)
Mr. TAM Tsz Kan
(Appointed on 1 October 2010)
Mr. WONG Lap Shek, Eddie
(Resigned on 30 September 2010)

REMUNERATION COMMITTEE

Mr. YUEN Wai Keung *(Chairman)*
Mr. CHAN, Sai Kit Kevin
(Appointed on 1 November 2010)
Professor LEUNG Yee Tak
(Resigned on 31 October 2010)
Mr. TAM Tsz Kan
(Appointed on 1 October 2010)
Mr. WONG Lap Shek, Eddie
(Resigned on 30 September 2010)

REGISTERED OFFICE

Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

Units 1809-1812,
Telford House,
16 Wang Hoi Road,
Kowloon Bay,
Hong Kong

LEGAL ADVISERS

Cheng Wong Lam & Partners
50th Floor Bank of China Tower,
1 Garden Road,
Central,
Hong Kong

AUDITORS

Grant Thornton
Certified Public Accountants
6th Floor Nexxus Building,
41 Connaught Road Central,
Hong Kong

PRINCIPAL BANKERS

The Bank of Tokyo-Mitsubishi UFJ, Ltd.
DBS Bank (Hong Kong) Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
United Overseas Bank Limited

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group
(Cayman) Limited
Butterfield House,
68 Fort Street,
P.O. Box 609,
Grand Cayman KY1-1107,
Cayman Islands

BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
26/F Tesbury Centre,
28 Queen's Road East,
Wan Chai,
Hong Kong

STOCK CODE

402

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2010, Mongolia Investment Group Limited (formerly known as Ming Hing Waterworks Holdings Limited) (the "**Company**") and its subsidiaries (collectively, the "**Group**") were able to achieve steady revenue growth, benefiting from the commencement of two waterworks maintenance projects for the Water Supplies Department ("**WSD**") in Hong Kong since the second half of 2009.

In an effort to transform the Company into a Mongolian resources-related conglomerate in the long run and to diversify its income sources, the Company acquired the entire issued share capital of Mongolia Investment Holding Limited (formerly known as Well Delight Holdings Limited) ("**Mongolia Investment BVI**") (the "**Acquisition**") during the period. Further details of the Acquisition are set out below.

The name of the Company has also been changed from "Ming Hing Waterworks Holdings Limited 明興水務控股有限公司" to "Mongolia Investment Group Limited 蒙古投資集團有限公司" with effect from 31 August 2010, a significant milestone underscoring the Company's future business direction, placing greater emphasis on operating as an investment holdings company.

Mongolia Mining Business

In view of the growing demand for natural resources in the PRC and around the world, as well as vast mine reserves in Mongolia, the Group completed the Acquisition on 17 June 2010, through which provided the Group with new growth opportunities in the resources-related business in Mongolia.

Mongolia Investment BVI, through its wholly-owned subsidiary, possesses the entire interest in Tugrugnuuriin Energy LLC ("**TNE**"). TNE holds four mining licenses in respect of a coal mine in Tugrug Valley (the "**TNE Mine**") which is approximately 170 km southeast of Ulaanbaatar, the capital of Mongolia. The brown coal deposit is found specifically in the Tugrug Valley within the administrative unit of Bayan Soum of Tuv (Central) Aimag (province) in Mongolia. According to a report conducted by an independent technical advisor, the TNE Mine has approximately 64.0 million tonnes of brown coal (measured and indicated) in situ resources and an additional 27.9 million tonnes of inferred resources.

The Group has commenced preparatory work at the TNE Mine, which includes purchase of office, renting equipment and machineries, developing mining design and technical plan for the surface mine, carrying out water treatment and management feasibility studies, and formal application of the mining operation permit. According to the latest progress report, it is estimated that the output of coal from the TNE Mine for the year ending 31 December 2010 and 31 December 2011 will be approximately 60,000 tonnes and 1,000,000 tonnes respectively. The Group will accelerate its mining work in the TNE Mine to speed up the production schedule in order to generate maximum revenue for the Group in the coming years.

Aside from holding coal mining licenses via TNE, Mongolia Investment BVI also possesses three exploration licenses in respect of coal deposits in DundGobi, Mongolia; two exploration licenses in respect of gold and copper deposits in Gobi-Altai, Mongolia; and two exploration licenses in respect of gold and copper deposits in Zavkhan, Mongolia. The Group has already commenced exploration work for the mines in these three areas.

Since the new mining business is presently in the initial stage of operation, income contributions have yet to be realized. During the period under review, the mining business incurred operating expenses of about HK$1.4 million.

Waterworks Business

The waterworks business accounted for roughly 99% of total revenue during the reporting period. Having won two waterworks maintenance contracts with WSD in July 2009, valued at over HK$700 million in total upon completion by 2012, work has since commenced and revenue contributions have been made to the Group. Details of the project contracts are as follows:

- Term Contract for Waterworks District E – New Territories East (contract number: 1/WSD/09(E)); and
- Term Contract for Waterworks District W – New Territories West (contract number: 1/WSD/09(W)).

Moreover, two major water mains replacement and rehabilitation projects continued to contribute stable income to the Group during the review period. The said projects are worth over HK$1 billion, and the details are as follows:

- Replacement and Rehabilitation of Water Mains, Stage 3 – Mains in East Kowloon (Package A) (contract number: 7/WSD/08), estimated to be completed in May 2013. As at 30 September 2010, about one quarter of the 87 km water mains covered by the project have been replaced or rehabilitated; and

- Replacement and Rehabilitation of Water Mains, Stage 3 – Mains on Hong Kong Island South and Outlying Islands (contract number: 18/WSD/08), estimated to be completed in September 2013. As at 30 September 2010, nearly 45% of the 42.5 km water mains covered by the project have been replaced or rehabilitated.

FINANCIAL REVIEW

For the six months ended 30 September 2010, the Group recorded revenue of HK$410.1 million, representing a year-on-year increase of 47.3% (six months ended 30 September 2009: HK$278.5 million). This was largely due to steady income provided by two waterworks maintenance projects which began in September 2009, and two major water mains replacement and rehabilitation projects that commenced in early 2009.

Basic loss per share was HK0.82 cents (six months ended 30 September 2009: HK1.08 cents). This has included (i) one-off professional fees and other expenses totaling HK$6.4 million arising from the Acquisition; (ii) imputed interest expenses of HK$27.2 million on promissory note and convertible note issued as part of consideration for the Acquisition; and (iii) fair value change on the derivative component of the convertible note amounted to HK$5.4 million. If the above-mentioned items (i) to (iii) were to be excluded, the basic loss per share was HK0.15 cents.

Revenue Breakdown by Business

During the review period, revenue from maintenance contracts for waterworks rose by 33.2% to HK$232.1 million (six months ended 30 September 2009: HK$174.3 million), accounting for 56.6% of the Group's total revenue (six months ended 30 September 2009: 62.6%). Revenue derived from water mains replacement and rehabilitation projects also increased, up by 230.2% to HK$152.2 million (six months ended 30 September 2009: HK$46.1 million), accounting for 37.1% of the Group's total revenue (six months ended 30 September 2009: 16.6%). Landslip prevention projects generated total revenue of HK$22.3 million, accounting for 5.4% of the Group's total revenue (six months ended 30 September 2009: 8.0%).

Gross Profit

Gross profit decreased by approximately 2.4% to HK$11.9 million (six months ended 30 September 2009: HK$12.2 million) and gross profit margin decreased to 2.9% (six months ended 30 September 2009: 4.4%), the result of various infrastructure projects pushed forward by the Hong Kong and Mainland China governments. Consequently, both materials and labor costs have continued to increase.

Capital Expenditure

During the period under review, the Group spent HK$19.1 million on the acquisition of property, plant and equipment in Hong Kong and Mongolia (six months ended 30 September 2009: HK$17.1 million), including those arising from the Acquisition of HK$13.4 million.

Operating Expenses

During the period under review, the Group's administrative expenses amounted to HK$26.8 million (six months ended 30 September 2009: HK$19.9 million), mainly consisted of legal and professional fees and staff costs (including director's emoluments). The increase in administrative expenses was mainly due to the professional fees and other expenses incurred for the Acquisition amounting to HK$6.4 million.

Liquidity & Financial Resources

As at 30 September 2010, cash at banks and in hand and pledged bank deposits reached HK$293.6 million (at 31 March 2010: HK$124.6 million). Total borrowings, including promissory note and convertible note issued as part of consideration for the Acquisition, as at the end of the review period were HK$945.2 million (at 31 March 2010: HK$107.7 million). The Group's current ratio, being the ratio of current assets to current liabilities, was 4.0 times (at 31 March 2010: 2.6 times), and its gearing ratio, in terms of total borrowings net of cash at banks and in hand and pledged bank deposits to total equity, stood at 37.3% (at 31 March 2010: N/A).

Foreign Exchange Risk Management

The Group's transactions are primarily denominated in Hong Kong dollars, United States dollars and Mongolian Tughrik. The Group has not implemented any formal hedging policy. However, the Group monitors its foreign exchange exposure continuously and, when it considers appropriate and necessary, will consider hedging significant foreign exchange exposure by way of forward foreign exchange contracts where appropriate.

Contingent Liabilities

Other than those disclosed in note 21 to the financial statements, the Company provided corporate guarantees on the banking facilities granted to its subsidiaries. The amount of facilities utilized by the subsidiaries as at 30 September 2010 amounted to HK$112.4 million (at 31 March 2010: HK$106.8 million).

Human Resources

As at 30 September 2010, the Group had approximately 647 employees (at 30 September 2009: 433 employees) with nearly 80% holding permanent positions. Total staff costs, including director's emoluments for the period under review amounted to HK$62.1 million (six months ended 30 September 2009: HK$38.6 million).

The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the Group and of the individuals concerned. In addition to salary payments, other staff benefits include performance bonuses, education subsidies, provident fund, medical insurance and the use of share option scheme to recognize and acknowledge contributions made or may make to the business development of the Group by its employees.

PROSPECTS

In recent years, global coal consumption has increased dramatically. Many industrialized nations, including the PRC, have grown dependant on coal as a main source of energy. As China's industries and economy continues to experience rapid growth, demand for coal will likewise continue to rise. Mongolia, well known for possessing an abundance of natural resources, will provide huge growth opportunities for the Group as it steps into the country's natural resources business. Already, the Group has devised a preliminary business development plan in which it intends to outsource the mining operations to professional contractors when the volume of coal reaches a specific amount, and thereby reduce capital expenditures, accelerate production and quickly generate cash flow.

Not neglecting its waterworks business, the Group possesses two waterworks maintenance contracts and two major water mains replacement and rehabilitation projects, thus ensuring steady source of revenue will continue to be generated in the second half of the financial year. The Group will also seek to win new contracts in order to secure additional revenue sources.

The Group is confident that by steadily transforming its business into a Mongolian resources-related conglomerate, it will be able to deliver greater returns to shareholders.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2010, the directors had the following interests in the shares (the "**Shares**") and underlying shares of the Company and its associated corporations which were recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "**SFO**"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"):

(a) Long position in the ordinary shares of HK$0.05 each of the Company

Name of director	Notes	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company
Mr. YUEN Chow Ming	1	Interest of controlled corporation	453,888,000	6.87%
Mr. YUEN Wai Keung	2	Interest of controlled corporation	453,888,000	6.87%
		Personal	5,704,000	0.09%
Mr. SO Yiu Cheung	3	Interest of controlled corporation	453,888,000	6.87%
		Personal	3,000,000	0.05%
Mr. CHEUNG Chi Man, Dennis		Personal	8,000,000	0.12%
Mr. LIM Siong, Dennis		Personal	206,850,000	3.13%
Professor LEUNG Yee Tak		Personal	600,000	0.01%
Mr. WONG Lap Shek, Eddie		Personal	600,000	0.01%

Notes:

(1) The 453,888,000 Shares are registered in the name of Robinhoods Development Limited ("**Robinhoods**"), of which Able Promise Holdings Limited ("**Able Promise**") is entitled to exercise, or control the exercise of, one-third of the voting power of Robinhoods at general meetings of the Company. Able Promise is wholly-owned by Mr. YUEN Chow Ming, who is therefore deemed to be interested in these Shares under the SFO.

(2) The 453,888,000 Shares are registered in the name of Robinhoods, of which Foremost Time Holdings Limited ("**Foremost Time**") is entitled to exercise, or control the exercise of, one-third of the voting power of Robinhoods at general meetings of the Company. Foremost Time is wholly-owned by Mr. YUEN Wai Keung, who is therefore deemed to be interested in these Shares under the SFO.

(3) The 453,888,000 Shares are registered in the name of Robinhoods, of which Group Honour Assets Limited ("**Group Honour**") is entitled to exercise, or control the exercise of, one-third of the voting power of Robinhoods at general meetings of the Company. Group Honour is wholly-owned by Mr. SO Yiu Cheung, who is therefore deemed to be interested in these Shares under the SFO.

(4) The approximate percentage of shareholding is calculated based on the issued share capital of the Company of 6,602,980,000 Shares as at 30 September 2010.

(b) Beneficial interests in the shares of associated corporations

Name of director	Notes	Name of associated corporation	Number of shares held in the associated corporation	Approximate percentage of shareholding
Mr. YUEN Chow Ming	1	Robinhoods	four	33.33%
		Able Promise	one	100%
Mr. YUEN Wai Keung	2	Robinhoods	four	33.33%
		Foremost Time	one	100%
Mr. SO Yiu Cheung	3	Robinhoods	four	33.33%
		Group Honour	one	100%

Notes:

(1) The four shares are held by Able Promise, a company wholly-owned by Mr. YUEN Chow Ming. Accordingly, Mr. YUEN Chow Ming is deemed to be interested in such four shares in Robinhoods.

(2) The four shares are held by Foremost Time, a company wholly-owned by Mr. YUEN Wai Keung. Accordingly, Mr. YUEN Wai Keung is deemed to be interested in such four shares in Robinhoods.

(3) The four shares are held by Group Honour, a company wholly-owned by Mr. SO Yiu Cheung. Accordingly, Mr. SO Yiu Cheung is deemed to be interested in such four shares in Robinhoods.

(c) Long position in the underlying Shares

Share Options

Pursuant to the share option scheme adopted by the Company on 25 February 2006 (details are set out in note 18 to the financial statements), certain directors were granted share options to subscribe for the Shares, details of share options outstanding and exercisable as at 30 September 2010 were as follows:

Name of director	Date of grant	Capacity	Number of underlying Shares comprised in the share options	Exercisable period	Exercise price per share
Mr. YUEN Chow Ming	25 August 2009	Beneficial owner	1,000,000	25 August 2009 to 31 August 2012	HK$0.385
Mr. YUEN Wai Keung	25 August 2009	Beneficial owner	1,000,000	25 August 2009 to 31 August 2012	HK$0.385
Mr. LIAO Cheung Tin, Stephen	25 August 2009	Beneficial owner	600,000	25 August 2009 to 31 August 2012	HK$0.385

Convertible Note

Zero coupon convertible note in the principal amount of HK$41,905,500 at the conversion price of HK$0.22 which can be converted to 190,479,545 shares as at 30 September 2010 was issued to Mr. LIM Siong, Dennis as part of the consideration for the acquisition of the entire issued capital of Mongolia Investment BVI.

Save as disclosed above, as at 30 September 2010, none of the directors and their associates, had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraphs headed "Directors' Interests in Shares and Underlying Shares of the Company and its Associated Corporations" above and note 15(d) and 18 to the financial statements, at no time during the period under review were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors or their respective spouse or minor children to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 30 September 2010, so far as the directors are aware of, the following substantial shareholders had interests in 5% or more of the Company's issued share capital:

Long position in the Shares

Name of Substantial Shareholder	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company
Robinhoods	Beneficial owner	453,888,000	6.87%
Able Promise	Interest of controlled corporation	453,888,000	6.87%
Group Honour	Interest of controlled corporation	453,888,000	6.87%
Foremost Time	Interest of controlled corporation	453,888,000	6.87%

Note:

The approximate percentage of shareholding is calculated based on the issued share capital of the Company of 6,602,980,000 Shares as at 30 September 2010.

Save as disclosed above, at 30 September 2010, no other interest or short positions in the shares and underlying shares of the Company were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors has any competing interests in any business or has any interest in any business that may constitute direct or indirect competition with the Group.

SHARE OPTIONS

Details of the Company's share option scheme are set out in note 18 to the financial statements.

INTERIM DIVIDEND

No dividend has been paid or declared by the Company in respect of the current interim period (six months ended 30 September 2009: HK1.2 cent per share).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the period under review, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company.

CORPORATE GOVERNANCE

The Board considers that good corporate governance is essential for enhancing accountability and transparency of a company to the investment public and other shareholders. The directors are dedicated to maintain high standard corporate governance practices. The board of directors (the "**Board**") reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and to fulfill its commitment to excellence in corporate governance.

The Company has complied with the applicable code provisions of the Code of Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") for the six months ended 30 September 2010.

Since 1 April 2010, the composition of the Board has undergone the following changes:

1. Mr. LIM Siong Dennis, Mr. WONG Tak Chung and Mr. ENEBISH Burenkhuu were appointed as executive directors with effect from 17 June 2010;

2. the term of directorship of Mr. WONG Lap Shek, Eddie pursuant to his letter of appointment dated 14 September 2009, expired on 30 September 2010 and he ceased to be an independent non-executive director, chairman and member of the audit committee, member of the nomination committee, and member of the remuneration committee of the Company. Mr. TAM Tsz Kan was appointed as an independent non-executive director, chairman and member of the audit committee, member of the nomination committee, and member of the remuneration committee of the Company with effect from 1 October 2010 to fill the casual vacancy; and

3. the term of directorship of Professor LEUNG Yee Tak, pursuant to his letter of appointment dated 1 November 2009, expired on 31 October 2010 and he ceased to be an independent non-executive director, member of the audit committee, member of the nomination committee, and member of the remuneration committee of the Company. Mr. CHAN, Sai Kit Kevin was appointed as an independent non-executive director, member of the audit committee, member of the nomination committee, and member of the remuneration committee of the Company with effect from 1 November 2010 to fill the casual vacancy.

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions. The obligations to comply with the Listing Rules are set out in the terms of the service contracts of each executive director and the letters of appointment of each independent non-executive director. The Company has made specific enquires with the directors, and all directors have confirmed that they have complied with the requirements set out under the Model Code for the six months ended 30 September 2010.

AUDIT COMMITTEE

As at the date of this report, the audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive directors, namely Mr. TAM Tsz Kan (as chairman of the Audit Committee), Mr. CHAN, Sai Kit Kevin and Mr. LIAO Cheung Tin, Stephen. The Audit Committee has, at the date of this report, reviewed with the Company's management and the auditors of the Company, the internal controls and financial reporting matters of the Company and the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2010 before submitting to the Board for approval. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

By Order of the Board
YUEN Wai Keung
Deputy Chairman and Chief Executive Officer

Hong Kong, 26 November 2010

CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 September 2010

	Notes	Six months ended 30 September 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Revenue	4	**410,147**	278,478
Cost of revenue		**(398,209)**	(266,249)
Gross profit		**11,938**	12,229
Other income and gains	4	**9,146**	72
Distribution and selling expenses		**–**	(278)
Administrative expenses		**(26,760)**	(19,852)
Operating loss	6	**(5,676)**	(7,829)
Finance costs	7	**(28,643)**	(829)
Loss before income tax		**(34,319)**	(8,658)
Income tax expense	8	**(7)**	–
Loss for the period		**(34,326)**	(8,658)
Attributable to:			
Owners of the Company		**(34,308)**	(8,639)
Non-controlling interests		**(18)**	(19)
		(34,326)	(8,658)
Loss per share	10	**HK cents**	HK cents
– Basic		**(0.82)**	(1.08)
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2010

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss for the period	**(34,326)**	(8,658)
Other comprehensive income		
Exchange difference arising on translation of overseas operation	**38,389**	26
Total comprehensive income for the period	**4,063**	(8,632)
Attributable to:		
Owners of the Company	**4,081**	(8,613)
Non-controlling interests	**(18)**	(19)
	4,063	(8,632)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2010

	Notes	At 30 September 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	**67,143**	54,094
Prepaid land lease payments		**907**	138
Goodwill	19	**33,701**	–
Exploration and evaluation assets	12	**2,492,739**	–
Retention receivables	13	**–**	6,680
Prepayments and deposits		**11,136**	–
Derivative financial asset – Derivative Component of the Convertible Note	15(d)	**71,578**	–
		2,677,204	60,912
Current assets			
Inventories		**53,931**	24,495
Amounts due from customers of contract works		**217,800**	232,271
Trade and other receivables, prepayments and deposits	13	**137,601**	124,159
Amounts due from related parties		**1,843**	–
Tax recoverable		**1,738**	1,746
Pledged bank deposits		**40,324**	35,320
Cash at banks and in hand		**253,314**	89,313
		706,551	507,304

	Notes	At 30 September 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Current liabilities			
Amounts due to customers of contract works		**–**	3,560
Trade and other payables	14	**62,751**	86,975
Amount due to a director		**13**	–
Borrowings	15	**112,879**	107,357
		175,643	197,892
Net current assets		**530,908**	309,412
Total assets less current liabilities		**3,208,112**	370,324
Non-current liabilities			
Borrowings	15	**832,305**	372
Government subsidies	16	**6,979**	–
Deferred tax liabilities		**619,749**	5,684
		1,459,033	6,056
Net assets		**1,749,079**	364,268
EQUITY			
Share capital	17	**330,149**	41,294
Reserves		**1,418,686**	322,712
Equity attributable to owners of the Company		**1,748,835**	364,006
Non-controlling interests		**244**	262
Total equity		**1,749,079**	364,268

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2010

	Equity attributable to owners of the Company										
	Share capital HK$'000	Share premium* HK$'000	Merger reserve* HK$'000	Share option reserve* HK$'000	Capital redemption reserve* HK$'000	Translation reserve* HK$'000	Convertible note equity reserve* HK$'000	Retained profits* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
(Unaudited)											
At 1 April 2009	40,049	207,178	13,805	7,809	6,629	517	–	106,893	382,880	302	383,182
Net loss for the period	–	–	–	–	–	–	–	(8,639)	(8,639)	(19)	(8,658)
Other comprehensive income	–	–	–	–	–	26	–	–	26	–	26
Total comprehensive income for the period	–	–	–	–	–	26	–	(8,639)	(8,613)	(19)	(8,632)
Share options granted (note 18)	–	–	–	2,289	–	–	–	–	2,289	–	2,289
Share issued upon exercise of share options	75	216	–	(69)	–	–	–	–	222	–	222
Share options forfeited (note 18)	–	–	–	(3,411)	–	–	–	3,411	–	–	–
Transactions with owners	75	216	–	(1,191)	–	–	–	3,411	2,511	–	2,511
At 30 September 2009	40,124	207,394	13,805	6,618	6,629	543	–	101,665	376,778	283	377,061
(Unaudited)											
At 1 April 2010	41,294	213,742	13,805	3,132	6,629	575	–	84,829	364,006	262	364,268
Net loss for the period	–	–	–	–	–	–	–	(34,308)	(34,308)	(18)	(34,326)
Other comprehensive income	–	–	–	–	–	38,389	–	–	38,389	–	38,389
Total comprehensive income for the period	–	–	–	–	–	38,389	–	(34,308)	4,081	(18)	4,063
Issue of Placing Shares (note 17(b))	190,000	266,000	–	–	–	–	–	–	456,000	–	456,000
Share issue expense	–	(4,560)	–	–	–	–	–	–	(4,560)	–	(4,560)
Issue of Consideration Shares (note 17(c))	98,500	334,900	–	–	–	–	–	–	433,400	–	433,400
Share issued upon exercise of share options	105	1,006	–	(302)	–	–	–	–	809	–	809
Share options forfeited (note 18)	–	–	–	(29)	–	–	–	29	–	–	–
Issue of Convertible Note (note 15(d))	–	–	–	–	–	–	494,565	–	494,565	–	494,565
Conversion of Convertible Note (note 15(d))	250	854	–	–	–	–	(570)	–	534	–	534
Transactions with owners	288,855	598,200	–	(331)	–	–	493,995	29	1,380,748	–	1,380,748
At 30 September 2010	330,149	811,942	13,805	2,801	6,629	38,964	493,995	50,550	1,748,835	244	1,749,079

* The total of these balances represents reserves in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 September 2010

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash (used in)/generated from operating activities	**(57,377)**	155,937
Net cash used in investing activities	**(235,695)**	(16,743)
Net cash generated from/(used in) financing activities	**459,292**	(153,769)
Net increase/(decrease) in cash and cash equivalents	**166,220**	(14,575)
Cash and cash equivalents at beginning of the period	**87,552**	63,757
Effect of foreign exchange rate changes, on cash held	**(458)**	(8)
Cash and cash equivalents at end of the period	**253,314**	49,174
Analysis of cash and cash equivalents		
Cash at banks and in hand	**253,314**	49,174

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 30 September 2010

1. General Information

The Company was incorporated in the Cayman Islands on 25 May 2004 as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of its principal place of business is Units 1809-1812, Telford House, 16 Wang Hoi Road, Kowloon Bay, Hong Kong.

Pursuant to a resolution duly passed in annual general meeting of the Company held on 26 August 2010, together with the approval of the Registrar of Companies in the Cayman Islands on 31 August 2010 and the approval of the Registrar of Companies in Hong Kong on 22 September 2010, the name of the Company has been changed from "Ming Hing Waterworks Holdings Limited 明興水務控股有限公司" to "Mongolia Investment Group Limited 蒙古投資集團有限公司" with effect from 31 August 2010.

The Group is principally engaged in the provision of maintenance and construction works on civil engineering contracts in respect of waterworks engineering, road works and drainage and slope upgrading for the public sector in Hong Kong, the provision of water supply services in Mainland China as well as mining and exploration of mineral resources in Mongolia.

On 5 December 2009, the Group entered into an agreement regarding the acquisition of the entire issued share capital of Mongolia Investment Holding Limited (formerly known as Well Delight Holdings Limited) ("**Mongolia Investment BVI**") for a consideration of approximately HK$1,937.5 million. The consideration was satisfied as to (i) HK$200 million by cash; (ii) HK$350 million by issuing a promissory note in principal amount of HK$350 million; (iii) HK$433.4 million by issuing 1,970 million new shares of the Company at an issue price of HK$0.22 per share (the "**Consideration Shares**") and (iv) HK$954.1 million by issuing a convertible note in principal amount of HK$954.1 million. Mongolia Investment BVI has equity interests in certain Mongolian companies which are principally engaged in mining and exploration activities in Mongolia. The acquisition was completed on 17 June 2010 and further details about the acquisition is disclosed in note 19.

1. General Information (Continued)

The unaudited condensed consolidated financial statements for the six months ended 30 September 2010 (the "**Interim 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**") and the applicable disclosure requirements of Appendix 16 to the Listing Rules.

The Interim Financial Statements do not include all of the information and disclosure required in the annual financial statements and thereby they should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2010.

The Interim Financial Statements are unaudited, but have been reviewed by the Company's Audit Committee. The Interim Financial Statements were approved for issue by the Board on 26 November 2010.

2. Principal Accounting Policies

The Interim Financial Statements have been prepared under the historical cost basis except for derivative financial instruments which are stated at fair value.

The accounting policies used in preparing the Interim Financial Statements are consistent with those followed in the Group's annual financial statements for the year ended 31 March 2010 with the adoption of certain standards and interpretations of Hong Kong Financial Reporting Standards ("**HKFRSs**") issued and became effective in the current interim period as described below.

3. Adoption of New and Revised HKFRSs

In the current interim period, the Group has adopted, for the first time, the following new and revised HKFRSs which are relevant and effective for the Group's financial statements for accounting periods beginning on or after 1 April 2010.

3. Adoption of New and Revised HKFRSs (Continued)

HKFRS 3 Business combinations (2008 Revised)

Under the revised standard, acquisition of subsidiaries is accounted for using the acquisition method of accounting. The assets acquired and liabilities assumed generally measured at their acquisition-date fair values. The cost of acquisition is measured at the aggregate of the fair values of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Transaction costs that the Group incurs in connection with a business combination will be expensed as incurred. If the Group holds interests in acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. In addition to measuring the non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, the Group may elect, on a transaction by transaction basis, to measure non-controlling interest at fair value. The revised standard has a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

In respect of the acquisition of Mongolia Investment BVI during the current interim period (note 19), the accounting treatment under the revised HKFRS 3 is different from that under the previous accounting policy. Such differences mainly include:

(a) Acquisition cost

Under the revised HKFRS 3, transaction costs directly attributable to the acquisition of Mongolia Investment BVI of approximately HK$6.4 million were expensed and included in administrative expenses. However, under the previous accounting policy, transaction costs were included as part of the cost of acquisition.

3. Adoption of New and Revised HKFRSs (Continued)

HKFRS 3 Business combinations (2008 Revised) (Continued)

(b) Contingent consideration

According to revised HKFRS 3, the contingent consideration at the date of acquisition on 17 June 2010 was measured at fair value as further detailed in note 19(d). The contingent consideration would not have been recorded under previous accounting policy since the directors consider it is not probable that the fair value would amount to HK$1,550 million or above.

HKAS 27 Consolidated and separate financial statements (2008 Revised)

The revised standard introduces changes to the accounting requirement for the loss of control of a subsidiary and for changes in the Group's interests in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests have a deficit balance. In addition, the Group acquires an additional interest in a non-wholly-owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders in their capacity as owners and therefore no goodwill will be recognised as a result of such transaction. If the Group disposes part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders in their capacity as owners and therefore no profit or loss will be recognised as a result of such transaction. If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if re-acquired. The adoption of this revised standard does not have material effect on the Interim Financial Statements.

The adoption of other new or revised HKFRSs which are effective in the current interim period does not have material effect on the Interim Financial Statements.

The Group has not early adopted any other new or revised HKFRSs which are issued but are not yet effective.

4. Revenue, Other Income and Gains

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 September 2010 (Unaudited) HK$'000	Six months ended 30 September 2009 (Unaudited) HK$'000
Revenue		
Contract revenue from maintenance and construction works on civil engineering contracts	**409,783**	278,187
Revenue from water supply services	**267**	262
Water supply related installation fee	**97**	29
	410,147	278,478
Other income and gains		
Bank interest income	**107**	65
Exchange gains	**3,622**	–
Sundry income	**36**	7
Fair value change on the Derivative Component of the Convertible Note (note 15(d))	**5,381**	–
	9,146	72
Total income	**419,293**	278,550

5. Segment Information

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for the purpose of resource allocation and assessment of segment performance. The Group has identified the following reportable segments for its operating segments:

Waterworks engineering contracting business	:	Provision of maintenance and construction works on civil engineering contracts in respect of waterworks engineering, road works and drainage and slope upgrading for the public sector in Hong Kong
Water supply business	:	Provision of water supply services and water supply related installation services in Mainland China
Mining and exploration business	:	Mining and exploration of mineral resources in Mongolia

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. Reportable segment profit/loss excludes corporate income and expenses from the Group's profit/loss before income tax. Corporate income and expenses are income and expenses incurred by corporate headquarter which are not allocated to the operating segments. Each of the operating segments is managed separately as the resources requirement of each of them is different.

Segment assets include all assets with the exception of corporate assets, including cash at banks and in hand and other assets which are not directly attributable to the business activities of operating segments, as well as those assets which are managed on a group basis such as tax assets.

5. Segment Information (Continued)

Segment information of the Group's reportable segments are summarised below:

	Waterworks engineering contracting business Six months ended 30 September		Water supply business Six months ended 30 September		Mining and exploration business Six months ended 30 September		Consolidated Six months ended 30 September	
	2010 (unaudited) HK$'000	2009 (unaudited) HK$'000	**2010 (unaudited) HK$'000**	2009 (unaudited) HK$'000	**2010 (unaudited) HK$'000**	2009 (unaudited) HK$'000	**2010 (unaudited) HK$'000**	2009 (unaudited) HK$'000
Reportable segment revenue								
Sales to external customers	**409,783**	278,187	**364**	291	**–**	–	**410,147**	278,478
Reportable segment profit/(loss)	**926**	849	**(447)**	(328)	**(1,379)**	–	**(900)**	521

	As at 30 September 2010 (unaudited) HK$'000	As at 31 March 2010 (audited) HK$'000	**As at 30 September 2010 (unaudited) HK$'000**	As at 31 March 2010 (audited) HK$'000	**As at 30 September 2010 (unaudited) HK$'000**	As at 31 March 2010 (audited) HK$'000	**As at 30 September 2010 (unaudited) HK$'000**	As at 31 March 2010 (audited) HK$'000
Reportable segment assets	**491,270**	513,455	**16,685**	17,121	**2,725,538**	–	**3,233,493**	530,576

5. Segment Information (Continued)

Reconciliation of the Group's reportable segment (loss)/profit to the loss before income tax is as follows:

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Reportable segment (loss)/profit	**(900)**	521
Fair value change on the Derivative Component of the Convertible Note (note 15(d))	**5,381**	–
Equity-settled share-based compensation	**–**	(2,030)
Corporate income and expenses	**(10,157)**	(6,320)
Finance costs	**(28,643)**	(829)
Loss before income tax	**(34,319)**	(8,658)

6. Operating Loss

	Six months ended 30 September 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Operating loss is arrived at after charging:		
Amortisation of prepaid land lease payments	**60**	1
Depreciation of property, plant and equipment		
– owned assets	**5,276**	2,922
– leased assets	**113**	681
	5,389	3,603
Staff costs (including directors' emoluments)		
– salaries, allowances and benefits in kind	**60,031**	35,519
– retirement benefits scheme contributions	**2,107**	1,077
– equity-settled share-based compensation (note 18)	**–**	2,030
	62,138	38,626
Operating lease charges		
– land and buildings	**1,066**	762
– plant and machinery	**2,629**	2,741
	3,695	3,503
Loss on disposal of property, plant and equipment	**749**	226
Impairment of prepayment for investments	**–**	3,657

7. Finance Costs

	Six months ended 30 September 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Interest charges on:		
Bank loans wholly repayable within five years	**1,418**	819
Interest element of finance lease payments	**28**	10
	1,446	829
Imputed interest expenses on Promissory Note (note 15(c))	**8,559**	–
Imputed interest expenses on Convertible Note (note 15(d))	**18,638**	–
Total interest on financial liabilities stated at amortised cost	**28,643**	829

8. Income Tax Expense

Hong Kong profits tax is calculated at 16.5% (six months ended 30 September 2009: 16.5%) of the estimated assessable profit for the period.

	Six months ended 30 September 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Current tax for the period		
– Hong Kong profits tax	**7**	–

9. Dividends

No dividend has been paid or declared by the Company in respect of the current interim period. In respect of last interim period, the directors declared an interim dividend of HK1.2 cent per share, amounting to HK$9,775,000 on 28 December 2009. This dividend was not reflected as dividend payable in last year's interim financial statements but was reflected as an appropriation of retained profits for the year ended 31 March 2010.

10. Loss Per Share

The calculation of basic loss per share is based on the loss for the period attributable to the owners of the Company of HK$34,308,000 (six months ended 30 September 2009: HK$8,639,000) and the weighted average number of ordinary shares in issue during the period of 30 September 2010 of 4,171,167,000 (six months ended 30 September 2009: 802,480,000).

10. Loss Per Share (Continued)

The calculation of diluted loss per share is based on the followings:

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss		
Loss attributable to owners of the Company used in the basic loss per share calculation	**(34,308)**	(8,639)
Effect of reduction of interest payable arising from the Convertible Note	**18,638**	–
Less: Fair value change on the Derivative Component of the Convertible Note	**(5,381)**	–
Loss used to determine diluted loss per share	**(21,051)**	(8,639)
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation	**4,171,167,000**	802,480,000
Effect of dilutive potential ordinary shares in respect of:		
– share options outstanding (note 18)	**26,302,000**	35,198,524
– Convertible Note (note 15(d))	**2,510,616,000**	–
Weighted average number of ordinary shares for the purpose of calculating dilutive loss per share	**6,708,085,000**	837,678,524

The computation of diluted loss per share for the current and the last interim periods does not assume the conversion of the outstanding share options and the Convertible Note since this would result in a decrease in loss per share.

11. Property, Plant and Equipment

During the six months ended 30 September 2010, the Group incurred capital expenditure of HK$19,135,000, including those arising from the acquisition through business combination of HK$13,368,000 (note 19), which were incurred as to approximately HK$5,559,000 (six months ended 30 September 2009: Nil) in buildings, approximately HK$1,533,000 (six months ended 30 September 2009: HK$771,000) in furniture, fixtures and equipment, approximately HK$179,000 (six months ended 30 September 2009: HK$741,000) in leasehold improvements, approximately HK$4,407,000 (six months ended 30 September 2009: HK$13,648,000) in motor vehicles, and approximately HK$7,457,000 (six months ended 30 September 2009: HK$1,963,000) in machinery and tools. Motor vehicles with net carrying value of HK$1,136,000 were disposed of during the current interim period (six months ended 30 September 2009: HK$216,000).

12. Exploration and Evaluation Assets

	Exploration and mining rights	**Others**	**Total**
	HK$'000	HK$'000	HK$'000
Six months ended 30 September 2010			
Acquisition through business combination (note 19)	2,406,201	23,230	2,429,431
Additions	764	7,898	8,662
Exchange difference	53,801	845	54,646
Net carrying amount at 30 September 2010	2,460,766	31,973	2,492,739

12. Exploration and Evaluation Assets (Continued)

The balance represents the cost of obtaining/acquiring exploration and mining licences to certain area in Mongolia with gold, copper and coal deposit. The exploration and mining licences comprise of the followings:

(i) Four exploration licences in respect of gold and copper deposits located in certain areas of Gobi-Altai and Zavkhan, Mongolia covering approximately 44,016 hectares and 15,517 hectares respectively;

(ii) Four mining licences in respect of a coal mine located in Tuv Province of Mongolia covering an area of 1,114 hectares in aggregate; and

(iii) Three exploration licences in respect of a coal mine located in DundGobi, Mongolia covering an area of 14,087 hectares in aggregate.

Pursuant to the Mineral Law of Mongolia which was adopted in 2006, exploration licence is granted for an initial period of 3 years and holder of an exploration licence may apply for an extension of such licence for two successive periods of 3 years each. Mining licence is granted for an initial period of 30 years and holder of a mining licence may apply for an extension of such licence for two successive periods of 20 years each.

Others mainly comprise geological and geophysical costs, costs incurred for drilling, trenching and excavation works, costs incurred for sampling and laboratory works, costs incurred for evaluation such as environment assessment and feasibility study, as well as depreciation and labour costs directly attributable to the exploration activities.

The amounts of exploration and evaluation assets as at 30 September 2010 represent active exploration and mining projects. Based on the assessment of the directors, there are no indications of impairment regarding the respective projects.

13. Trade and Other Receivables, Prepayments and Deposits

	At 30 September 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Trade receivables	**52,368**	53,228
Retention receivables	**32,517**	28,281
Prepaid land lease payments	**1**	2
Prepayments and deposits	**18,350**	14,224
Other receivables	**34,365**	35,104
	137,601	130,839
Less: Retention receivables included under non-current assets	**–**	(6,680)
	137,601	124,159

The ageing analysis of trade receivables (based on invoice date) as at the reporting date is as follows:

	At 30 September 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Within 3 months	**52,363**	53,225
7 to 9 months	**3**	1
Over 1 year	**2**	2
	52,368	53,228

Credit period granted to customers of contract works is normally 30 to 60 days. Application for progress payments of contract works is made on a regular basis. Credit period granted to customers of water supply business is normally 30 days.

14. Trade and Other Payables

Details of the trade and other payables including ageing analysis of trade payables (based on invoice date) are as follows:

	At 30 September 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Trade payables aged		
– Within 3 months	**29,033**	58,680
– 4 to 6 months	**10,641**	10,977
– 7 to 9 months	**824**	1,264
– 10 to 12 months	**270**	74
– Over 1 year	**2,311**	2,041
	43,079	73,036
Retention payables	**3,895**	1,679
Other payables and accruals	**15,777**	12,260
	62,751	86,975

15. Borrowings

	At 30 September 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Current		
Bank loans and overdraft, secured (note (a))	**112,416**	106,751
Finance lease liabilities (note (b))	**463**	606
	112,879	107,357
Non-current		
Finance lease liabilities (note (b))	**159**	372
Promissory Note (note (c))	**294,173**	–
Convertible Note – liability component (note (d))	**537,973**	–
	832,305	372
Total borrowings	**945,184**	107,729

15. Borrowings (Continued)

Notes:

(a) Bank loans and overdraft are denominated in HK$, arranged at floating rates ranged from 1.63% to 2.55% (at 31 March 2010: 1.60% to 2.33%) per annum and are repayable within one year. Bank loans and overdraft amounting to HK$112,416,000 (at 31 March 2010: HK$106,751,000) are secured by the corporate guarantees issued by the Company and are secured by charges over bank deposits amounting to HK$40,324,000 (at 31 March 2010: HK$35,320,000). In addition, bank loans amounting to HK$81,416,000 (at 31 March 2010: HK$77,478,000) is secured by the proceeds on civil engineering contracts.

(b) The Group leases certain of its motor vehicles and machinery and these leases are classified as finance leases having remaining lease terms ranging from six to nineteen months (at 31 March 2010: six to twenty-five months). As at 30 September 2010, the total future minimum lease payments under finance leases and their present value were as follows:

	At 30 September 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Total minimum lease payments		
Due within one year	**490**	652
Due in the second year	**162**	371
Due in the third to fifth years, inclusive	**–**	13
	652	1,036
Less: future finance charges on finance leases	**(30)**	(58)
Present value of finance lease liabilities	**622**	978
Present value of financial lease liabilities		
Due within one year	**463**	606
Due in the second year	**159**	359
Due in the third to fifth years, inclusive	**–**	13
	622	978
Less: Current portion due within one year included under current liabilities	**(463)**	(606)
Non-current portion included under non-current liabilities	**159**	372

15. Borrowings (Continued)

(c) As disclosed in note 1, as part of the consideration for the acquisition of Mongolia Investment BVI (the "**Acquisition**"), the Company issued a promissory note in principal amount of HK$350,000,000 (the "**Promissory Note**"). The Promissory Note is unsecured, non-interest bearing and will mature in two years from the date of issue of the Promissory Note on 17 June 2012.

The fair value of the Promissory Note on the date of the Acquisition on 17 June 2010 was HK$285,614,000, which was determined based on the valuation carried out by Asset Appraisal Limited, independent professional valuer. The carrying value of the Promissory Note as at 30 September 2010 was HK$294,173,000.

The Promissory Note is subsequently measured at amortisation cost using effective interest method by applying an effective interest rate of 10.70% per annum. Imputed interest expenses of approximately HK$8,559,000 (note 7) has been recognised in the profit or loss of the current interim period.

(d) As disclosed in note 1, as part of the consideration for the Acquisition, the Company issued a zero coupon convertible note in principal amount of HK$954,100,000 (the "**Convertible Note**") which will mature in five years from the date of issue of the Convertible Note on 17 June 2015.

At the option of the holder of the Convertible Note (the "**Noteholder**"), the Noteholder may convert the whole or part of the principal amount of the Convertible Note into the shares of the Company (the "**Conversion Shares**") at the conversion price of HK$0.22 per share (subject to anti-dilutive adjustments) during the period from the date of issue of the Convertible Note up to its maturity date. The Convertible Note is non-redeemable prior to the maturity date. The Company has the right (the "**Extension Option**") to extend the maturity date in respect of the outstanding amount of the Convertible Note for another five years.

15. Borrowings (Continued)

(d) (Continued)

The Convertible Note was stated at fair value on the date of the Acquisition on 17 June 2010 which amounted to HK$948,237,000. The fair value was determined based on the valuation carried out by Asset Appraisal Limited. The Convertible Note contains three components – liability component, equity component and the derivative component arising from the Extension Option (the "**Derivative Component**").

The fair value of the liability component of the Convertible Note was calculated using an equivalent market interest rate for an equivalent non-convertible bond. The fair value of the equity component and the Derivative Component was determined based on the valuation carried out by Asset Appraisal Limited by using binomial valuation model.

The carrying values of the liability component, the equity component and the Derivative Component of the Convertible Note recognised in the statement of financial position are as follows:

	Liability component HK$'000	**Equity component** HK$'000	**Derivative Component** HK$'000
Carrying amount on initial recognition	519,945	494,565	(66,273)
Change in fair value recognised in profit or loss (note (ii))	–	–	(5,381)
Imputed interest expenses (note (i))	18,638	–	–
Conversion of Convertible Note (note (iii))	(610)	(570)	76
Carrying amount at 30 September 2010	537,973	493,995	(71,578)

15. Borrowings (Continued)

(d) (Continued)

Notes:

(i) The liability component is subsequently measured at amortised cost using effective interest method by applying an effective interest rate of 12.91% per annum. Imputed interest expenses of approximately HK$18,638,000 (note 7) has been recognised in profit or loss of the current interim period.

(ii) The Derivative Component is measured at fair value with changes in fair value recognised in profit or loss. The Derivative Component is carried as an derivative financial asset in the statement of financial position until extinguished on conversion or redemption.

(iii) During the period, 5,000,000 Conversion Shares were issued upon conversion of the Convertible Note in total amount of HK$1,100,000. At the time of conversion, the proportion amounts of the convertible note equity reserve, the Derivative Component and the carrying value of the liability component were transferred to share capital and share premium as proceeds for the shares issued.

Further details of the principal terms and conditions regarding the issue of the Convertible Note have been set out in the circular of the Company dated 12 May 2010.

16. Government Subsidies

These subsidies were granted by the government of Mongolia to finance the establishment of a processing plant for smokeless fuel product. Since the investment cost for constructing the processing plant as well as the related government subsidies are still subject to negotiation with the government, the received subsidies were recognised as non-current liabilities (note 20(b)(i)).

17. Share Capital

	At 30 September 2010 (Unaudited)			At 31 March 2010 (Audited)		
	Par value HK$	Number of ordinary shares	Nominal value HK$'000	Par value HK$	Number of ordinary shares	Nominal value HK$'000
Authorised						
Balance at beginning of the period/year	0.05	2,000,000,000	100,000	0.05	2,000,000,000	100,000
Increase (note (a))	0.05	48,000,000,000	2,400,000	–	–	–
Balance at end of the period/year	0.05	50,000,000,000	2,500,000	0.05	2,000,000,000	100,000
Issued and fully paid						
Balance at beginning of the period/year	0.05	825,880,000	41,294	0.05	800,980,000	40,049
Shares issued upon exercise of share options	0.05	2,100,000	105	0.05	24,900,000	1,245
Issue of Placing Shares (note (b))	0.05	3,800,000,000	190,000	–	–	–
Issue of Consideration Shares (note (c))	0.05	1,970,000,000	98,500	–	–	–
Conversion of Convertible Note (note (d))	0.05	5,000,000	250	–	–	–
Balance at end of the period/year	0.05	6,602,980,000	330,149	0.05	825,880,000	41,294

17. Share Capital (Continued)

Notes:

(a) Pursuant to the extraordinary general meeting dated 28 May 2010, the authorised share capital of the Company has increased from HK$100,000,000 divided into 2,000,000,000 shares of HK$0.05 each to HK$2,500,000,000 divided into 50,000,000,000 shares of HK$0.05 each by the creation of an additional 48,000,000,000 new shares.

(b) As one of the conditions to the Acquisition, the Group completed a placing (the "**Placing**") of 3,800,000,000 new shares (the "**Placing Shares**") of the Company at HK$0.12 per share. Gross proceeds generated from the Placing amounted to HK$456,000,000. Part of the proceeds is used for financing the settlement of the cash consideration for the Acquisition. The issue of the Placing Shares has resulted in the increase in share capital and share premium account of the Company by HK$190,000,000 and HK$266,000,000 respectively.

(c) As disclosed in note 1, the Company issued 1,970,000,000 new shares (the "**Consideration Shares**") as part of the consideration for the Acquisition. The fair value of the Consideration Shares, determined based on the closing market price of the Company on the date of the Acquisition on 17 June 2010 of HK$0.22 per share, amounted to HK$433,400,000. The issue of the Consideration Share has resulted in the increase in share capital and share premium account of the Company by HK$98,500,000 and HK$334,900,000 respectively.

(d) On 10 August 2010, the Noteholder converted the Convertible Note in total amount of HK$1,100,000 at the conversion price of HK$0.22 per share whereby a respective total number of 5,000,000 Conversion Shares were issued (note 15(d)).

18. Share-based Compensation

The movements of the share options granted by the Company during the current and in last interim periods are as follows:

2010			Number of share options				
Grantees	Options grant date	Exercise price per share HK$	At 1 April 2010 '000	Granted '000	Exercised '000	Forfeited '000	At 30 September 2010 '000
Directors	25 August 2009	0.385	3,200	–	(600)	–	2,600
Employees	25 August 2009	0.385	1,700	–	(300)	(200)	1,200
Suppliers of services or goods	18 February 2009	0.148	48,000	–	–	–	48,000
	25 August 2009	0.385	1,800	–	(1,200)	–	600
			49,800	–	(1,200)	–	48,600
Total			54,700	–	(2,100)	(200)	52,400
Weighted average exercise price (HK$ per share)			0.177	–	0.385	0.385	0.168

18. Share-based Compensation (Continued)

2009

Grantees	Options grant date	Exercise price per share HK$	Number of share options: At 1 April 2009 '000	Granted '000	Exercised '000	Forfeited '000	At 30 September 2009 '000
Directors	17 April 2007	0.975	1,200	–	–	(1,200)	–
	18 February 2009	0.148	8,000	–	–	–	8,000
	25 August 2009	0.385	–	4,800	–	–	4,800
			9,200	4,800	–	(1,200)	12,800
Employees	4 April 2007	0.600	1,700	–	–	(1,700)	–
	17 May 2007	1.420	400	–	–	(400)	–
	5 October 2007	0.812	2,050	–	–	(1,125)	925
	18 February 2009	0.148	8,000	–	(1,500)	–	6,500
	25 August 2009	0.385	–	9,300	–	–	9,300
			12,150	9,300	(1,500)	(3,225)	16,725
Suppliers of services or goods	26 March 2007	0.445	9,000	–	–	(9,000)	–
	4 April 2007	0.600	13,400	–	–	(13,400)	–
	5 October 2007	0.812	8,500	–	–	(300)	8,200
	18 February 2009	0.148	48,000	–	–	–	48,000
	25 August 2009	0.385	–	1,800	–	–	1,800
			78,900	1,800	–	(22,700)	58,000
Total			100,250	15,900	(1,500)	(27,125)	87,525
Weighted average exercise price (HK$ per share)			0.328	0.385	0.148	0.588	0.260

18. Share-based Compensation (Continued)

No share options were granted during the current interim period. The amount of share-based compensation arising from granting the share options during last interim period was HK$2,289,000. The share-based compensation in respect of the share options granted to the directors and employees amounting to HK$2,030,000 and to consultants amounting to HK$259,000 were recognised as administrative expenses. The corresponding amount of HK$2,289,000 has been credited to the share option reserve. No liabilities were recognised as those are equity-settled share-based payment transactions.

During the current interim period, 200,000 (six months ended 30 September 2009: 27,125,000) share options granted to directors, consultants and employees were forfeited and the corresponding share option expenses of HK$29,000 (six months ended 30 September 2009: HK$3,411,000) was transferred from share option reserve to retained profits.

The number of outstanding share options which are exercisable as at 30 September 2010 was 52,400,000 (at 30 September 2009: 87,525,000) which represent approximate 0.79% (at 30 September 2009: 10.91%) of the Company's shares in issue on that date. The exercise in full of these share options would result in the issue of 52,400,000 additional ordinary shares of the Company including additional share capital of HK$2,620,000 and share premium of HK$6,178,000.

19. Business Combination

The Acquisition as mentioned in note 1 was completed on 17 June 2010 which is accounted for using acquisition method. The directors consider that it is beneficial for the Group to seek suitable investment opportunities to diversify its existing business portfolio and to broaden its source of income. It is of the view that the Acquisition would allow the Group to diversify into a new line of business with significant growth potential which may generate better investment returns to the shareholders.

The fair values of the identifiable assets and liabilities of Mongolia Investment BVI as at the date of the Acquisition and the corresponding carrying amounts immediately prior to the Acquisition are as follows:

	Fair values HK$'000	**Carrying amounts** HK$'000
Property, plant and equipment	13,368	13,368
Prepaid land lease payments	675	675
Exploration and evaluation assets	2,429,431	1,481,414
Prepayments and deposits	3,511	3,511
Trade and other receivables	4,104	4,104
Cash and cash equivalents	2,785	2,785
Trade and other payables	(7,363)	(7,363)
Amounts due to related parties	(13)	(13)
Bank borrowings	(5,581)	(5,581)
Government subsidies	(6,730)	(6,730)
Deferred tax liabilities (note (b))	(600,637)	(363,633)
Net assets acquired	1,833,550	1,122,537
Goodwill	33,701	
Total cost of the Acquisition (note (a))	1,867,251	

19. Business Combination (Continued)

Notes:

(a) The fair value of the consideration at the date of the Acquisition comprises:

	HK$'000
Cash	200,000
Consideration Shares (note 17(c))	433,400
Promissory Note (note 15(c))	285,614
Convertible Note (note 15(d))	948,237
	1,867,251

(b) Deferred tax liabilities is provided at the applicable tax rate in Mongolia on the fair value adjustments.

(c) Since the Acquisition, Mongolia Investment BVI and its subsidiaries did not generate revenue and incurred net loss of approximately HK$1,379,000 for the period up to 30 September 2010.

Had the business combination been taken place on 1 April 2010, the newly acquired subsidiaries contributed no revenue and net loss of HK$4,693,000 for the period ended 30 September 2010. These pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had the Acquisition been completed on 1 April 2010 nor are they intended to be a projection of future results.

(d) Apart from the above, included in the acquisition agreement are some terms and conditions relating to contingent consideration (the "**Contingent Consideration**"). Under such terms and conditions, the Company is required to issue a compensation note (the "**Compensation Note**") to the vendor in case of the fair value of the exploration licences held by the entities (the "**Fair Value**") as shown in the valuation report to be submitted in eight months after the completion of the Acquisition (the "**Second Valuation Report**") is not less than HK$1,550 million. The principal amount of the Compensation Note shall be:

(i) the Fair Value, if such Fair Value as shown in the Second Valuation Report is equal to or more than HK$1,550 million but less than HK$3,100 million; or

(ii) HK$3,100 million, if the Fair Value as shown in the Second Valuation Report is equal to or more than HK$3,100 million.

No payment shall be made if the Fair Value as shown in the Second Valuation Report is less than HK$1,550 million. Based on the information available up to the date of this interim report, the directors assess that the fair value of the Contingent Consideration as at the date of the Acquisition was nil.

20. Commitments

The Group had the following significant commitments as at 30 September 2010:

(a) Operating lease commitments

The future aggregate minimum lease rental payable under a non-cancellable operating lease in respect of land and buildings was as follows:

	At 30 September 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Within one year	**3,548**	1,450
In the second to fifth years inclusive	**4,069**	–
	7,617	1,450

The Group leases certain properties under the operating lease. The leases run for an initial period of one to three years (at 31 March 2010: two to three years), with an option to renew the lease and renegotiate the terms at the expiry date. The leases do not include any contingent rentals.

20. Commitments (Continued)

(b) Capital commitments

	At 30 September 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Purchase of property, plant and equipment (note (i) and (ii))	**31,992**	–
Acquisition of technical know-how	**2,703**	–
Other commitments related to exploration and evaluation activities	**11,705**	–
	46,400	–

Notes:

(i) Pursuant to the tender submitted to the relevant government authority of Mongolia dated 18 August 2006 which was accepted by the government authority on 11 October 2006, Tugrugnuuriin Energy LLC ("**TNE**"), an indirect wholly-owned subsidiary of the Company, has to establish a processing plant for the production of smokeless fuel product at an estimated investment cost of MNT5,835 million (equivalent to approximately HK$39 million). In connection to this, TNE received subsidies from the government amounted to MNT1,186 million (equivalent to approximately HK$7.3 million) in aggregate up to 31 December 2008. The tender refers to a number of performance targets including the commencement of operation and production of the processing plant in March 2008, the production of a specified quantity of smokeless fuel per year and the capital injection of MNT5,835 million (equivalent to approximately HK$39 million) by March 2008. However, the performance targets are not yet achieved up to the date of this interim report.

20. Commitments (Continued)

(b) Capital commitments (Continued)

(i) (Continued)

Based on (i) a contract accomplishment notice dated 8 October 2008 was signed by TNE and the government authority confirming that the subsidies granted to TNE have been used for the construction of the processing plant and that the government has agreed to provide additional funding for the project; (ii) management has been actively communicating with the government authority regarding revising the existing investment plan as well as seeking for additional subsidies; and (iii) the legal advisors of the Group, having considered the tender, the contract accomplishment notice and the circumstance arising, opine that it is very unlikely for the government to hold TNE responsible for the performance targets, the directors have assessed that the fact that the performance targets as set forth in the tender are not yet achieved do not result in the significant financial impact to the Group. The outstanding commitment with reference to the existing investment plan amounted to approximately MNT4,504 million (equivalent to approximately HK$26.5 million) as at 30 September 2010 is disclosed herein. The entire amount of the government subsidies received were accounted for as non-current liabilities (note 16) until TNE and the government authority have come into a conclusion on the revised investment plan and the additional subsidies for the processing plan.

(ii) On 9 August 2010, Grand State Holdings Limited ("**Grand State**"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Nature Tour LLC, a company incorporated in Mongolia, to acquire an office premise located at Mongolia at a consideration of US$1,368,000 (equivalent to approximately HK$10.7 million). At the interim reporting date, the outstanding amount is approximately US$413,000 (equivalent to approximately HK$3.2 million).

21. Contingent Liabilities and Litigations

A writ of summons dated 15 July 2009 was served to a subsidiary of the Company as defendant in respect of the two claims of two completed projects from an ex-subcontractor seeking the recovery of a sum of approximately HK$9.5 million in aggregate. The Group made a counterclaim against the ex-subcontractor for overpayment of approximately HK$8.6 million. The claims are under legal proceedings. As at 30 September 2010 and up to the date of this report, the legal proceedings are still in progress. There is no material progress in respect of the claims subsequent to the interim reporting periods. Based on the advice from the legal advisers of the Group, the directors believe that the Group has a good case not only to defend but also to counterclaim the overpaid amount. Accordingly, the directors consider that the claims from the ex-subcontractor will unlikely result in any material financial impact on the Group.

Apart from the above, as at 30 September 2010, a number of lawsuits and claims arising from the normal course of business were lodged against the Group which remain outstanding as at the date of this report. Claim amounts are not specified in the applications of these lawsuits and claims. In the opinion of the directors, sufficient insurance coverage are maintained to cover the losses, if any, arising from these lawsuits and claims and therefore the ultimate liability under these lawsuits and claims would not have a material adverse impact on the financial position of the Group.

22. Related Party Transactions

During the interim period, the Group entered into the following related party transactions:

(i) Transactions with a related company

	Six months ended 30 September	
	2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Rental expenses for office premises paid to Grand Media Limited	**492**	492

The directors of the Company, Mr. Yuen Chow Ming, Mr. So Yiu Cheung and Mr. Yuen Wai Keung, have equity interests of 34%, 33% and 33%, respectively, in the above related company.

(ii) Key management personnel

Included in staff costs are key management personnel compensation which comprises the following categories:

	Six months ended 30 September	
	2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Salaries, allowances and benefits in kind	**6,417**	4,370
Equity-settled share-based compensation	**–**	907
Post-employment benefits	**86**	67
	6,503	5,344

23. Post Balance Sheet Event

On 25 October 2010, the Company granted 560,000,000 share options with exercise price of HK$0.171 per share to certain directors, employees and consultants under its share option scheme. The share options represent 8.48% of the issued share capital of the Company as at 30 September 2010.