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MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2010

The directors (the "Directors") of Mongolia Energy Corporation Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (the "Group" or "MEC") for the six months ended September 30, 2010 together with the comparative figures for the corresponding period in the previous year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2010

	Notes	**Six months ended September 30, 2010** *HK$'000* **(unaudited)**	2009 *HK$'000* (unaudited)
Continuing operation			
Revenue – coal mining	*3*	**–**	–
Interest income		**273**	1,409
Staff costs		**(57,479)**	(28,168)
Depreciation		**(13,222)**	(11,876)
Other expenses		**(47,921)**	(37,358)
Finance costs	*4*	**(39,075)**	(52,649)
Other gains and losses	*5*	**1,180**	47,588
Fair value loss on investment property		**–**	(13,533)
Share of losses of associates		**(2,317)**	(165)
Loss before taxation		**(158,561)**	(94,752)
Income tax expense	*6*	**–**	–
Loss for the period from continuing operation	*7*	**(158,561)**	(94,752)
Discontinued operation			
Loss for the period from discontinued operation	*8*	**–**	(33,196)
Loss for the period attributable to owners of the Company		**(158,561)**	(127,948)

	Notes	Six months ended September 30, **2010** **(unaudited)**	2009 (unaudited)
LOSS PER SHARE	*10*		
From continuing and discontinued operations			
– basic *(HK cents)*		**2.60**	2.11
– diluted *(HK cents)*		**2.60**	2.11
From continuing operation			
– basic *(HK cents)*		**2.60**	1.56
– diluted *(HK cents)*		**2.60**	1.56
From discontinued operation			
– basic *(HK cents)*		**–**	0.55
– diluted *(HK cents)*		**–**	0.55

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended September 30, 2010

	Six months ended September 30,	
	2010	2009
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the period	**(158,561)**	(127,948)
Other comprehensive (expense) income for the period		
Exchange difference arising on translation	**(6,171)**	1,299
Total comprehensive expense for the period	**(164,732)**	(126,649)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At September 30, 2010

	Notes	September 30, 2010 HK$'000 (unaudited)	March 31, 2010 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*11*	**13,052,914**	94,314
Investment property	*11*	**95,932**	94,278
Intangible assets		**1,220**	877
Development in progress		**1,296,384**	1,090,494
Exploration and evaluation assets	*12*	**369,977**	13,189,727
Interests in associates		**4,117**	41,599
Available-for-sale financial asset		**3,914**	–
Other asset		**1,150**	1,150
Loan note receivable	*5*	**–**	37,667
Prepayments for exploration and evaluation expenditure		**22,042**	22,042
Deposits for property, plant and equipment and other long-term deposits		**97,602**	63,556
Amount due from an associate		**200,000**	200,000
		15,145,252	14,835,704
Current assets			
Inventories		**2,771**	–
Other receivables, prepayments and deposits		**67,310**	164,094
Held-for-trading investments		**42,785**	45,207
Amounts due from associates		**3,328**	3,654
Cash and cash equivalents		**174,105**	121,299
		290,299	334,254

	Notes	**September 30, 2010** *HK$'000* **(unaudited)**	March 31, 2010 *HK$'000* (audited)
Current liabilities			
Accounts payable	*13*	**8,056**	8,110
Other payables and accruals		**54,239**	49,244
Convertible notes	*14*	**1,953,521**	140,232
Loan note		**114,232**	112,969
Amount due to an associate		**–**	624
		2,130,048	311,179
Net current (liabilities) assets		**(1,839,749)**	23,075
		13,305,503	14,858,779
Non-current liabilities			
Convertible note	*14*	**296,456**	1,709,801
Net assets		**13,009,047**	13,148,978
Financed by:			
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		**122,071**	122,058
Reserves		**12,886,919**	13,026,863
		13,008,990	13,148,921
Non-controlling interests		**57**	57
Total equity		**13,009,047**	13,148,978

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

In preparing the condensed consolidated financial statements, the Directors have given consideration to the future liquidity of the Group. While recognising that the Group had net current liabilities of approximately HK$1,839,749,000 at September 30, 2010, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future as the Group has agreed in principle with the holder of the zero coupon convertible note (principal amount of HK$2 billion) to extend the maturity date of not less than 18 months from April 30, 2011, subject to re-negotiation of certain terms, as set out in Note 14. In addition, as set out in Note 15 of the condensed consolidated financial statements, the Group issued a convertible note amounting HK$466.8 million to third parties to fund its mining operation in Mongolia.

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. The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2010, except as described below:

As set out in Note 11 of the condensed consolidated financial statements, due to the fact that the technical feasibility and commercial viability of extracting mineral resources of the Khushuut coking coal mine become demonstrable and such coal mine has moved to a development phase during the interim period, new accounting policies in relation to the mining structures and mineral properties have been adopted. In addition, as set out in Note 14 of the condensed consolidated financial statements, the Group issued a convertible note denominated in currency other than its functional currency, hence a new accounting policy in relation to this convertible note is also added. The new accounting policies adopted by the Group during the period are as follows:

Mining structures

Mining structures include deferred stripping costs and mining related property, plant and equipment. When technical feasibility and commercial viability has been demonstrated, but before the commercial production, stripping cost incurred to develop coal mines are capitalised as part of the cost of the mining structures. Mining structures are included in property, plant and equipment and are depreciated on the unit-of-production basis, using estimated resources as the depletion base.

Mineral properties

Mineral properties comprise of mining rights and capitalised exploration costs which are capitalised initially under exploration and evaluation assets and transferred to property, plant and equipment as mineral properties when the technical feasibility and commercial viability of extracting mineral resources become demonstrable. On the commencement of commercial production, depreciation of each mineral properties will be provided on the unit-of-production basis, using estimated resources as the depletion basis.

Convertible notes contains liability component and conversion option derivative

Convertible notes issued by the Company that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in consolidated income statement.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to consolidated income statement immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

In addition, in the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after April 1, 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after April 1, 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) is applicable, the application of HKFRS 3 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods. While for the application of HKAS 27 (Revised) and the consequential amendments to other HKFRSs, it has no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods on the disposal of subsidiaries' transaction set out in Notes 9.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early adopted the following new and revised standards, amendments to existing standards or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets[4]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirment[3]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate
[2] Effective for annual periods beginning on or after July 1, 2010
[3] Effective for annual periods beginning on or after January 1, 2011
[4] Effective for annual periods beginning on or after July 1, 2011
[5] Effective for annual periods beginning on or after January 1, 2013

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

HKFRS 9 was revised in November 2010 by adding the requirements for the classification and measurement of financial liabilities. One major change relates to the presentation of a gain or loss on a financial liability designated at fair value to consolidated income statement. The Standard requires the change in fair value that is attributable to changes in the credit risk of that financial liability to be presented in other comprehensive income, unless such presentation would create or enlarge an accounting mismatch. The Group currently does not designate any financial liabilities as at fair value through consolidated income statement. The application of such revised requirement may have effect on the result and financial position of the Group should such designation be made in the future.

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

3. REVENUE AND SEGMENT INFORMATION

As at September 30, 2010, based on information reported to the chief operating decision maker (i.e. the Board of Directors) for the purpose of resource allocation and performance assessment, the Group's only operating segment is the coal mining business. In prior period, the charter flight services were presented as an operating segment to the Group. However, the provision of charter flight services was discontinued with effect from March 1, 2010, and as a result, the comparative figures in relation to the segment information have been restated to reflect such change.

The segment revenue and results for the continuing operation for the period ended September 30, 2010 are as follows:

For the six months ended September 30, 2010

Continuing operation

	Coal mining *HK$'000*	**Total** *HK$'000*
Segment revenue	**–**	**–**
Segment loss	**(43,065)**	**(43,065)**
Unallocated corporate expenses		**(75,557)**
Interest income		**273**
Other gains and losses		**1,180**
Finance costs		**(39,075)**
Share of losses of associates		**(2,317)**
Loss before taxation		**(158,561)**

The segment revenue and results for the period ended September 30, 2009 are as follows:

For the six months ended September 30, 2009

Continuing operation

	Coal mining *HK$'000*	Total *HK$'000*
Segment revenue	–	–
Segment loss	(29,040)	(29,040)
Unallocated corporate expenses		(48,362)
Interest income		1,409
Other gain		47,588
Fair value loss on investment property		(13,533)
Finance costs		(52,649)
Share of losses of associates		(165)
Loss before taxation		(94,752)

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

	September 30, 2010 ***HK$'000***	March 31, 2010 *HK$'000*
Coal mining	**14,622,140**	14,222,174

4. FINANCE COSTS

	Six months ended September 30,	
	2010 ***HK$'000***	2009 *HK$'000*
Interest on borrowings wholly repayable within five years:		
Interest expense:		
– convertible notes	**103,488**	101,711
– loan note	**1,263**	4,466
– loans from a Director *(Note)*	**1,493**	–
Less: interest expense capitalised to development in progress	**(67,169)**	(53,528)
	39,075	52,649

Note:

The amount represents interest paid to Mr. Lo Lin Shing, Simon ("Mr. Lo"), the executive Director, for short term advances to the Company amounting to HK$170 million during the period. The interest expense was charged at the prime rate quoted by the Hong Kong and Shanghai Banking Corporation Limited per annum. The loans were fully repaid during the period ended September 30, 2010.

5. OTHER GAINS AND LOSSES

During the period ended September 30, 2010, a gain of approximately HK$8,387,000 (2009: Nil) was recorded which resulted from the early redemption of a loan note receivable.

In addition, the Group recorded a fair value loss from its held-for-trading investments of approximately HK$2,422,000 (2009: Gain of approximately HK$47,588,000).

6. INCOME TAX EXPENSE

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

No provision for Hong Kong and overseas taxation (2009: Nil) has been made for the period as subsidiaries of the Group have no assessable profit for the period.

7. LOSS FOR THE PERIOD FROM CONTINUING OPERATION

Loss for the period has been arrived at after charging:

	Six months ended September 30,	
	2010	2009
	HK$'000	*HK$'000*
Operating lease rentals in respect of land and buildings	**7,967**	8,275
Amortisation of intangible assets	**302**	229

8. DISCONTINUED OPERATION

	Six months ended September 30,	
	2010	2009
	HK$'000	*HK$'000*
Revenue	**–**	1,239
Depreciation	**–**	(4,047)
Fair value loss on aircraft	**–**	(24,333)
Other expenses	**–**	(6,055)
Loss for the period	**–**	(33,196)
Cash flows from discontinued operation		
Net cash outflows from operating activities	**–**	(10,346)
Net cash outflows from investment activities	**–**	(383)
Net cash inflows from financing activities	**–**	10,729
Net cash outflows	**–**	–

As set out in Note 3, the Group discontinued its charter flight service business on March 1, 2010 after the Company entered into a conditional agreement with Vision Values Holdings Limited to dispose of its entire interest in Glory Key Investments Ltd. ("Glory Key") for approximately HK$94.7 million on December 9, 2009. The disposal was completed on March 1, 2010 and following the disposal, the results of the charter flight service business was reported as a discontinued operation.

9. DISPOSAL OF SUBSIDIARIES

On September 1, 2010, the Group disposed of its 100% equity interest in Business Aviation Asia Group Limited and its subsidiary (collectively the "Disposal Group") to Wellington Equities Inc., which is wholly and beneficially owned by Mr. Lo. The principal activity of the Disposal Group is investment holding of a 43% equity interest in the People's Republic of China (the "PRC") company which is principally engaged in aircraft charter, aircraft management, aircraft maintenance and related business.

	HK$'000
Net assets disposed of	
Interest in an associate	36,129
Cash and cash equivalents	46
	36,175
Satisfied by:	
Cash	36,175
Net cash inflow arising on disposal:	
Total cash consideration received	36,175
Cash and cash equivalents disposal of	(46)
	36,129

10. LOSS PER SHARE

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

	Six months ended September 30,	
	2010	2009
	HK$'000	*HK$'000*
Loss attributable to the owners of the Company, as used in the calculation of basic and diluted loss per share		
Loss from continuing and discontinued operations	**(158,561)**	(127,948)
Loss from continuing operation	**(158,561)**	(94,752)
Loss from discontinued operation	**–**	(33,196)

	2010	2009
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares in issue for calculation of basic and diluted loss per share	**6,103,548**	6,067,904

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

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

On June 2, 2010, based on collective results of various explorations, the Directors considered the technical feasibility and commercial viability of extracting mineral resources of the Khushuut coking coal mine become demonstrable and such coal mine has moved to a development phase. As a result, its corresponding exploration and evaluation assets amounting approximately to HK$12,881,951,000 were transferred to the property, plant and equipment as mineral properties.

The mining properties incorporate both the mining rights (intangible) and the underlying mineral reserve (tangible) elements. The Directors consider the tangible reserve is the more significant element and hence the entire mining properties are classified as property, plant and equipment.

In addition, during the period, the Group mainly spent approximately HK$45,990,000 on development of mining structures, HK$43,951,000 on construction in progress related to a rotary breaker and HK$7,970,000 on motor vehicles. The Group disposed of motor vehicles with a net book value of HK$23,000 for a consideration of approximately HK$8,000, resulting in losses on disposal of approximately HK$15,000.

At September 30, 2010, the Directors considered the carrying amount of the Group's investment property do not differ significantly from that which would be determined using fair values at the end of the reporting period. Consequently, no fair value change has been recognised in the current period.

12. EXPLORATION AND EVALUATION ASSETS

	Mining and Exploration Rights *(Note c)* *HK$'000*	**Others** *(Note b)* *HK$'000*	**Total** *HK$'000*
At April 1, 2009	12,512,186	246,534	12,758,720
Acquisition of an exploration right *(Note a)*	285,676	–	285,676
Additions	–	121,598	121,598
Exchange adjustments	23,733	–	23,733
At March 31, 2010	12,821,595	368,132	13,189,727
Additions	–	62,201	62,201
Transfer to property, plant and equipment *(Note 11)*	(12,535,919)	(346,032)	(12,881,951)
At September 30, 2010	285,676	84,301	369,977

Notes:

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

On July 16, 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 October 16, 2009 but it had not done so by the prescribed time. It also states that any previously granted licenses that overlap the defined prohibited areas will be terminated within five months following the enactment of the law.

The MPL further states that affected license holders shall be compensated but details as to how the compensation is determined has not been specified in 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 prepared a preliminary list of licences that overlap with the defined prohibited areas under the MPL. The Group's iron ore exploration concession might be affected by the MPL under the preliminary list. Z LLC, a subsidiary of the Group which owns the iron ore exploration concession, received a notice from the MRAM about the potential revocation of its exploration concession under the MPL and Z LLC was requested to submit the estimated compensation for termination of licenses 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. According to the best knowledge of the Group, there was no revocation of its licences as at September 30, 2010. The management also considers that even if the licenses 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 September 30, 2010 amounting approximately HK$286 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 was revoked due to the MPL and the Group was paid compensation significantly less than the consideration the Group paid to acquire 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 and labour costs directly attributable to exploration activities.

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

13. ACCOUNTS PAYABLE

The ageing analysis of accounts payable by invoice date is as follows:

	September 30, 2010	March 31, 2010
	HK$'000	*HK$'000*
Current to 30 days	**8,056**	967
31 to 60 days	**–**	7,141
61 to 90 days	**–**	2
	8,056	8,110

14. CONVERTIBLE NOTES

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

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

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

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

In additions, on September 6, 2010, the Company issued a 3.5% convertible note to Golden Infinity Co., Ltd. ("Golden Infinity") at a principal value of HK$300 million (the "GI Convertible Note"). Golden Infinity is wholly and beneficially owned by Mr. Lo. The GI Convertible Note has a maturity period of three years from the issue date to September 5, 2013 and can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$4 convertible note at the holder's option at any time between the issue date and the maturity date subject to the anti-dilutive adjustment. Interest of 3.5% per annum will be paid annually in arrears on September 6.

The GI Convertible Note contains two components, liability component and conversion option derivative. The effective interest rate of the liability component is 11.92%. The conversion option derivative is measured at fair value with changes in fair value recognised in consolidated income statement. The Directors considered the carrying amount of the conversion option derivative does not differ significantly from its fair value at the end of the reporting period. Consequently, no fair value change has been recognised in the current period.

The movement of the liability component of the Convertible Note, Zero Coupon Convertible Note and GI Convertible Note and conversion option derivative of the GI Convertible Note for the period/year is set out below:

	Liability Component		**Conversion option derivative**		**Total**	
	September 30, 2010	March 31, 2010	**September 30, 2010**	March 31, 2010	**September 30, 2010**	March 31, 2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of the period/year	**1,850,033**	1,647,166	**–**	–	**1,850,033**	1,647,166
Initial recognition	**226,894**	–	**69,562**	–	**296,456**	–
Interest expense	**103,488**	202,867	**–**	–	**103,488**	202,867
At end of the period/year	**2,180,415**	1,850,033	**69,562**	–	**2,249,977**	1,850,033

Analysed for reporting purposes as:

	September 30, 2010 *HK$'000*	March 31, 2010 *HK$'000*
Current liabilities	**1,953,521**	140,232
Non-current liabilities	**296,456**	1,709,801
At end of the period/year	**2,249,977**	1,850,033

15. SUBSEQUENT EVENT

The Company entered into a subscription agreement on November 3, 2010 with Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited (the "Subscribers") under which the Subscribers have conditionally agreed to (i) subscribe for 3.5% unsecured convertible note in the principal amount of HK$466.8 million (the "First Note") and (ii) accept an option exercisable within six months of the issue of the First Note to subscribe for further convertible note in the principal amount of HK$311.2 million (the "Second Note"). Both the First Note and the Second Note have maturity period of three years from the issue date. The First Note and the Second Note can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$3.4 per Company's share (subject to adjustments) and HK$4.4 per Company's share (subject to adjustments) respectively. The subscription of the First Note was completed on November 12, 2010.

INTERIM DIVIDEND

The Directors have resolved not to declare interim dividend for the six months ended September 30, 2010. (2009: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

Results Analysis

Continuing Operation

During the six-month financial period ended September 30, 2010 (the "Financial Period"), the Khushuut Coking Coal Mine was in an advanced stage of development. During the Financial Period, Leighton LLC (our contract miner), had developed mine access roads, pre-stripping of overburden, developed of coal storage and surface disposal areas and other pre-production projects. With the assistance of Leighton LLC, we began delivery of the first shipment of coking coal to our customer, though in a small quantity of several hundred tons raw and a trial in nature, after the Financial Period in October. As such, no revenue from coal mining was recognised for the Financial Period.

The increase in staff costs to HK$57.5 million (2009: HK$28.2 million) was largely resulting from the recruitment of additional managerial staff for the Khushuut Coking Coal Mine Project and the recognition of expense in relation to share options granted by the Company under our share option scheme during the Financial Period.

Other Expenses were increased by 28.3% during the Financial Period. They were mainly attributable to the increased in staff benefits to professional staff recruited during this period and additional spending in professional fees in relation to the Group's mine development and exploration activities.

The finance costs had been dropped by 25.8% to HK$39.1 million (2009: HK$52.6 million). The reduction was due to the capitalisation of borrowing costs for an amount of HK$67.2 million (2009: HK$53.5 million) directly attributable to the construction of development in progress.

Gain on early redemption of loan note of HK$8.4 million (2009: Nil) related to the disposal of the entire equity interest in Glory Key Investments Ltd. ("Glory Key"), a subsidiary engaging in aircraft charter business, to Vision Values Holdings Limited ("VVHL"). For details of the transaction, please refer to the Company's announcement dated December 11, 2009. The consideration of this disposal was satisfied as to HK$50 million in cash, subject to adjustment, and as to the remaining balance of HK$46 million through the issue of a loan note by VVHL (the "Loan Note"). The disposal was completed on March 1, 2010 and the Loan Note was issued on the same date which was unsecured, interest bearing at 4% per annum and had a 2-year maturity period from the issue date. As the Loan Note could be redeemed from time to time before maturity at the discretion of VVHL, it elected to early redeem the Loan Note on April 27, 2010. As a result, a gain on early redemption of the Loan Note was recognised during the Financial Period.

Fair value loss from held-for-trading investments amounted to HK$2.4 million (2009: Gain of HK$47.6 million). A mild unrealised fair value loss was recognised during the Financial Period reflected the relatively stable market performance of the Group's trading portfolio in contrast with the investment market rally in the last comparable period.

Discontinued operation

The discontinued operation in last comparable period related to the aircraft charter business. This business segment was disposed of on March 1, 2010.

Loss attributable to the equity holders of the Company

For the Financial Period, the Group recorded a loss attributable to the shareholders of the Company of HK$158.6 million (2009: HK$127.9 million). The basic and diluted loss per share (from continuing and discontinued operations) were both HK2.6 cents (2009: HK2.11 cents).

Business Review

During this period, we had not acquired any new project in relation to our energy and related resources business.

The following disposal and termination had taken place during this period:

(i) In May 2010, we terminated the acquisition of a new Falcon 900EX aircraft. It is consistent with our focus as an energy resources developer after the disposal of Glory Key in December 2009 and the provision of aircraft charter business was ceased in March 2010; and

(ii) In August 2010, we disposed Business Aviation Asia Group Limited ("Business Aviation"), a wholly-owned subsidiary of the Company to Wellington Equities Inc. at a consideration of HK$38,239,645. The principal asset of Business Aviation was its 43% equity interest in a company in the People's Republic of China engaging in the business of aircraft charter, aircraft management, aircraft maintenance and related business. The transaction required approval of independent shareholders which was sanctioned on August 30, 2010. The disposal was completed on September 1, 2010.

Apart from the above, to facilitate the upcoming coking coal transportation, on April 9, 2010, we entered into the Road Surface Contract for the Khushuut Road consisting principally of asphalt pavement of the roadway and construction of some surface stations along the roadway of approximately 340 kilometers with an independent contractor for RMB488,240,940. As at the date hereof, the road surface pavement has been substantially completed.

On April 27, 2010, we entered into a Subscription Agreement with Golden Infinity Co., Ltd. ("Golden Infinity"), a company wholly owned by Mr. Lo Lin Shing, Simon, Chairman and an executive Director, and pursuant to which Golden Infinity agreed to subscribe for the a HK$300,000,000 convertible note ("GI Convertible Note") from the Company with a right to convert up to 75,000,000 new shares of the Company at an initial conversion price at HK$4 per share. It is a support from the Chairman prior to the Company having revenue generated from its coal mining operation. It was a connected transaction which required independent shareholders' approval and the sanction was obtained on August 30, 2010. Completion took place on September 6, 2010.

In June, 2010, we entered the long term mining contract for 6 years with Leighton LLC. The contract sum is estimated to be approximately AUD273 million (approximately HK$1,856.4 million) subject to adjustments on the amount of coal produced as required by us from time to time in response to mining and other market conditions. Leighton LLC will be responsible for all overall mining activities at the Khushuut Coking Coal Mine including loading and hauling of waste, loading and hauling of coal, drilling and blasting, mine planning, technical support and site camp management.

Apart from Baosteel Bayi, we have also signed up another customer in Xinjiang, the People's Republic of China for the purchase of our coking coal products next year for 1 million tons of coking coal, subject to periodic delivery terms upon actual delivery. We will continue to negotiate with potential customers and expand our customer base, where appropriate, with increased production over time.

SUBSEQUENT BUSINESS DEVELOPMENT

On November 3, 2010, we entered into a Subscription Agreement with Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited, Sculptor Finance (SI) Ireland Limited (the "Subscribers") under which the Subscribers agreed to subscribe for the 3.5% coupon convertible notes (the "First Note") in aggregate principal amount of HK$466.8 million together with an option to subscribe an additional convertible notes (at the discretion of the Subscribers) in the principal amount of HK$311.2 million (the "Second Note"). The initial conversion price under the First Note and the Second Note are HK$3.4 per Share (subject to adjustments) and HK$4.4 per Share (subject to adjustments) respectively.

The net proceeds from the First Note and the Second Note (if issued) were expected to be approximately HK$452.3 million and HK$301.8 million respectively. The net proceeds raised from the issue of the said convertible notes are intended to be used for the Khushuut Coking Coal Project and the general working capital of the Group, including any possible future acquisitions. The issue of the Note was completed on November 12, 2010.

With the assistance of our mining contractor, Leighton LLC, we eventually began delivery of the first shipment of coking coal to our major customer, though in a small quantity of several hundred tons raw and a trial run in nature, in October.

On July 16, 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. According to the preliminary list prepared by the Mineral Resources Authority of Mongolia, the Group has three exploration licences under MoEnCo LLC for coal ferrous and non-ferrous resources and the two exploration licences of Zvezdometrika LLC for ferrous resources which may be affected by the MPL. If the MPL is implemented and no adequate compensation is paid, there will be no material financial impact on MoEnCo LLC for the relevant affected licences and the potential effect on Zvezdometrika LLC has been set out in Note 12 of the financial statements herein.

There were recent news articles in Hong Kong and Mongolia reporting that the Mongolian government would revoke at least 254 mining licences for gold mining across the country on grounds that these licenses overlap with restricted areas as defined in the MPL. The Company has made a preliminary enquiry with its Mongolia legal advisers and was informed that none of the licences to be revoked involved the licences of the Group's operating subsidiaries in Mongolia, namely MoEnCo LLC and Zvezdometrica LLC. We will closely monitor the development in Mongolia and will keep shareholders informed in due course if appropriate.

FINANCIAL REVIEW

1. *Liquidity and financial resources*

   During the Financial Period, the Group's capital expenditure and working capital were funded from cash in hand, internal cash generation and fund raising exercise. On September 6, 2010, the Company issued a 3.5% convertible note to Golden Infinity at a principal value of HK$300 million to meet working capital needs and funding for necessary infrastructures for the Khushuut mine operation. The GI Convertible Note has a maturity period of three years and can be converted into 1 ordinary share of the Company for every HK$4 at the holder's option at any time between the issue date and the maturity date.

   The borrowings of the Group as at September 30, 2010 comprised loan note and convertible notes amounted to HK$2,364 million (March 31, 2010: HK$1,963 million). The increase was due to issuance of new convertible note and the accrual of interest for the Financial Period calculated at effective interest rates in the range of 11.23% to 14.14%. Of the total borrowings, 87.5% are repayable within 12 months and the remaining is falling in the 1 to 3 year maturity profile.

   Among the short term repayable borrowings is the HK$2 billion zero coupon convertible note issued to Chow Tai Fook Nominee Limited which will be due in April 2011. We have agreed in principle with Chow Tai Fook Nominee Limited that the repayment term will be extended to another 18 months subject to the certain terms to be agreed between the parties. For accounting presentation purpose, we have reclassified the said convertible note to current liability pending the finalisation of the legal formalities to extend the repayment term. As a result of such reclassification, the Group's current liabilities exceeded its current assets by approximately HK$1,840 million as at September 30, 2010. We will discuss the revised terms of the said convertible notes with Chow Tai Fook Nominee Limited in due course and we foresee no difficulties in the discussion.

The liquidity ratio as at September 30, 2010 was 0.14 (March 31, 2010: 1.07)

2. *Property, plant and equipment*

In June 2010, the Directors considered the technical feasibility and commercial viability of the Kushuut Coking Coal Mine and such coal mine has moved to a development stage. As a result, its corresponding exploration and evaluation assets amounting to approximately HK$12,882 million were transferred to the property, plant and equipment as mineral properties during the Financial Period.

3. *Investment in listed securities*

As at September 30, 2010, the Group's held-for-trading investments comprised of equity securities listed in Hong Kong with fair value of HK$42.8 million (March 31, 2010: HK$45.2 million).

4. *Charge on Group's assets*

There were no charges on the Group's assets as at September 30, 2010 (March 31, 2010: Nil).

5. *Gearing ratio*

As at September 30, 2010, the gearing ratio of the Group was 0.15 (March 31, 2010: 0.13) which was calculated based on the Group's total borrowings to total assets.

6. *Foreign exchange*

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

7. *Contingent liabilities*

As at September 30, 2010, the Group did not have significant contingent liabilities (March 31, 2010: Nil).

8. *Disposal of subsidiaries and an associate*

During the Financial Period, the Group disposed of its entire interest in Business Aviation and its subsidiary (collectively "Disposed Group"). The business of the Disposed Group is investment holding of 43% equity interest in a PRC company. The PRC company is principally engaged in aircraft charter, aircraft management, aircraft maintenance and related business. No material financial impact on the Group's financial results in association with the divestment of the Disposed Group.

OUTLOOK

We are delighted to report that we have commenced delivery of our first shipment of coking coal this October, though it is a small quantity and a trial in nature. This is of great excitement to us that after a relatively short period of apparently three years of hard works in our Khushuut Coking Coal Project, we have now commenced deliveries. It also represents a positive sign to our shareholders and the investment and mining communities of our ability to execute our plans. The first shipment could not have happened without the assistance of Leighton LLC, our mining contractor, our staff on the mine site, our contractors for upgrading the Khushuut Road which has been substantially completed to facilitate the shipment transportation all working as a team. In the course of preparation for the first shipment we experienced a few challenges in the delivery process which with our team of experts were able to manage. We have absorbed the valuable experience from this initial trial shipment and are confident that we will gradually increase our production next year to meet the demand of our customers, the market and the expectation of our valued shareholders.

Although we have kicked off our production and it is our aim to ramp up our coking coal output to an annual rate of 2 million tons or more for next year, we anticipate ongoing challenges which may impact actual implementation. For example, installation of our rotary breaker for screening coal from other rock materials has been delayed due to the onset of winter and we anticipate that the installation process will only resume early next year. This affects the quantity and quality of our raw coal output and transportation efficiency. Currently the Yarant border on the Mongolia side through which we deliver our coking coal products to Xinjiang only opens for 2 weeks monthly and we have to ship our products within the time frame of its operation. Therefore a bottleneck situation in the movement of our products which will also affect our productivity may occur. The Mongolian and Chinese Governments are in discussions to classify the border as a permanent border crossing thus extending the operations to a full month schedule. We hope the extension will take effect early next year. Although the Khushuut Road has been substantially built and tested under our first shipment, the severe weather conditions in winter may also prevent us from delivering coal as scheduled. Severe weather conditions may also result in temporary suspension of our operations in Khushuut and reduce our productivity. We are also subject to other risk factors as set out in our last Annual Report including legal, political and world economic conditions which may impact our operation.

Having said the above, we are confident that our effort will be repaid as we have professionally reliable in-house and external teams which we could leverage their experience and working together toward our target. Our mine is strategically located close to the Xinjiang border which it shows a very promising market demand of our coking coal products by the steel manufacturers there according to our recent market research. We currently have two customers agreeing to purchase an aggregate for 2 million tons of coking coal from us next year subject to our productivity and we are also looking for other potential customers to grow our customer base. We have a premium quality coking coal to meet the requirements of our high quality customers. After the October trial shipment, we are now working closely with our customer to expand the quantity of our shipment in a gradual process.

Our experience in the Khushuut project will be replicated to our other potential resources areas within our concessions. We are currently conducting reconnaissance works and actual exploration within selected areas of our concessions. We will continue to work hard for our success to come.

We will also consider other potential projects which may have synergy to our existing business operation.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended September 30, 2010.

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 shareholders. The Board and the senior management of the Company recognise their responsibilities to maintain the interest of the shareholders and to enhance their value. The Board also believes a deliberate policy of corporate governance can facilitate the Company's rapid growth under a healthy governance structure and strengthen the confidence of shareholders and investors.

The Company has applied the principles of the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

For the six months period ended September 30, 2010, the Company had complied with the CG Code except for deviations from the code provision A.4.1and E.1.2 of the CG Code as summarized below:

i. Under the code provision A.4.1 of the CG Code, non-executive Directors should be appointed for a specific term. This constitutes a deviation from code provision A.4.1. of the CG Code. However, they are subject to the 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 are no less exacting than those in the CG Code.

ii. The code provision E.1.2 of the CG Code stipulates that the Chairman of the Board should attend the annual general meeting ("AGM") of the Company.

    The Chairman did not attend the 2010 AGM due to other business engagement. An executive Director had chaired the 2010 AGM and answered questions from the shareholders. A member of the audit and remuneration committees of the Company was also available to answer questions at the 2010 AGM.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. During the period of 60 days immediately preceding and including the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to and including the publication date of the annual results, all Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published.

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

Upon specific enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Code throughout the six months period ended September 30, 2010.

HUMAN RESOURCES

As at September 30, 2010, the Group employed 284 full-time employees in Hong Kong, Mongolia and Mainland China. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviews on periodic basis. Apart from retirement schemes, year-ended bonuses and share options are awarded to the employees according to the assessment of individual performance and industry practice. Appropriate training programs are also offered for staff training and development.

AUDIT COMMITTEE

The audit committee of the Company, which comprises three independent non-executive Directors, has reviewed the unaudited interim accounts of the Group for the six months ended September 30, 2010 in conjunction with Deloitte Touche Tohmatsu ("Deloitte"), the Company's independent auditor. Such review does not constitute an audit on the basis of review conducted by Deloitte. The review report issued by Deloitte will be set out in the interim report of the Company.

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

Hong Kong, November 26, 2010

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