

MEC

MONGOLIA ENERGY CORPORATION

蒙古能源有限公司

Incorporated in Bermuda with limited liability
Stock Code: 276

Interim Report 2010

ENERGY
RESOURCES
DEVELOPER



**We are an energy and resources developer.
Our vision is to achieve global recognition in
the energy and resources sector.**

**This report is printed on
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Caution Regarding Forward-Looking Statements

This Report contains certain forward-looking statements and opinions with respect to the operations and businesses of MEC. These forward-looking statements and opinions relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates and are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will or other results of actions that may or are expected to occur in the future. You should not place undue reliance on these forward-looking statements and opinions, which apply only as of the date of this Report. These forward-looking statements are based on MEC's own information and on information from other sources which MEC believes to be reliable. Our actual results may be materially less favorable than those expressed or implied by these forward looking statements and opinions which could affect the market price of our shares. You should also read the risk factors set out under our circulars and announcements for each of the transactions, which are deemed incorporated and form part of this document and as qualification to the statements relating to the relevant subject matters. Neither MEC nor its directors and employees assume any liability in the event that any forward-looking statements or opinions does not materialise or turns out to be incorrect. Subject to the requirements of the Listing Rules, MEC does not undertake to update any forward-looking statements or opinions contained in this Report.

MEC's Western Mongolia Concessions



■ 34,000 hectares
of coal concession

■ 32,000 hectares
of coal, ferrous
and non-ferrous
metals concession

■ 263,008 hectares
of coal, ferrous
and non-ferrous
metals concession

■ 2,986 hectares
of ferrous metals
concession



Border station

— Khushuut road (Built by MEC)

— Local road, Uyench canyon

— Country boundary

— Local road, Bodonch road

— Province boundary

○ Lake

Map shown below is not to scale



Mongolia is an independent country located in East and Central Asia, bordering Russia to the north and China to the south, east and west. In terms of volume and variety of mineral resources, Mongolia ranks among the richest countries, possessing prospected deposits of ferrous, non-ferrous, rare, precious and light metals as well as rare earth elements. There are also numerous deposits of non-metallic minerals and fossil fuels. The most important minerals in terms of economic value are copper, molybdenum, fluorite, coal, gold and rare elements.

(Source: Government of Mongolia)

Since 2007, MEC entered into a series of acquisitions for different mineral and energy resources. Our combined concession areas for coal, ferrous and non-ferrous metal resources at Khushuut, Darvi, Gants Mod, Olon Bulag, Govi-Altai, Bayan-Ulgii, Western Mongolia have been over 330,000 hectares.

Chairman's Statement

Dear Shareholders,

It is my great honor to report to you that our Khushuut Coking Coal Project has begun trial shipment to our anchor customer, Bayi Steel, in October 2010. The shipment marks an important milestone for MEC in that the Khushuut Coking Coal Project has evolved from the exploration stage to production. With the commencement of production, our Khushuut Coking Coal Project will be able to generate returns for our shareholders and contribute to the economy and development of Western Mongolia and Xinjiang, PRC.

The demand and market conditions for our coking coal products are favorable according to a recent market study by Shanxi Fenwei Energy Consulting Co., Ltd., MEC's coal market consultant. Public reports have mentioned that the Beijing government will double investment in Xinjiang over the next five years, which will create substantial increased demand for steel, concrete, coal, and various natural resources. Indeed, Bayi Steel has announced plans to increase steel capacity from 7 million metric tons this year to 10 million metric tons by 2012. Moreover, other major steel manufacturers in China, e.g. Shougang Group and Shandong Iron and Steel Group are also building new capacities in Xinjiang. Amid strong demand and favorable market conditions for our coal, our priority is to ramp up our production volume as soon as possible.

It has been slightly over 3 years since we acquired our first concession areas in Western Mongolia and commenced the rebranding of our company into Mongolia Energy Corporation or "MEC". During this short period of time, we have acquired over 330,000 hectares of concession areas, conducted extensive exploration programs, completed the feasibility study of the Khushuut Coking Coal Project, built a 310 km quality roadway linking our Khushuut Coking Coal Mine to the Chinese border, and initiated mine production. Achieving these kinds of progress over such short period of time is considered extremely efficient by international standard. This also proves that our senior management and dedicated staff have effectively executed our business model as an energy and resources developer.





The recent convertible notes subscribed by an internationally renowned investor group and myself indicate the confidence of the subscribers in MEC. We will strive to maximize returns to our shareholders by replicating the success of the Khushuut Coking Coal Project in other prospects and investments, for example, various coal and minerals prospects within our concession areas. MEC will continue exploration efforts in our existing concession areas and investment projects and will also look for acquisition targets with great natural resources potential.

I am truly grateful to your continuous support and the dedication of our staff, our partners and the people whom we work with. I will report to you further on our progress in our next Annual Report.

Simon Lo

Chairman

November 26, 2010

Management Discussion & Analysis



OVERVIEW

The Group is an energy and resources developer. The acquisition of 34,000 hectares of concession areas in Western Mongolia in 2007 marked a new episode and commitment of the Group to become an energy and resources developer. As of today, the Group has approximately 330,000 hectares of concessions for coal, ferrous and non-ferrous resources in Mongolia. The Group is currently focusing on its principal project, the Khushuut Coking Coal Project, which is within 600 hectares of the concession areas. The Group is also exploring and prospecting other concession areas for further coal, copper, gold and other resources.

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 increase 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 discontinued 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 RMB488.2 million (approximately HK\$566.4 million). 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 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 Zvezdometrika 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 Khushuut 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 was 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.

Management Discussion & Analysis

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.

Corporate Governance and Other Information

INTERIM DIVIDEND

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

DIRECTORS’ INTERESTS AND SHORT POSITIONS

As at September 30, 2010, the interests or short positions of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) as recorded in the register required to be kept by the Company under Section 352 of 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 Companies (the “Model Code”) were as follows:

(a) Long positions in the shares

Name of Directors	Capacity	Number of shares	Approximate percentage of shareholding
Mr. Lo Lin Shing, Simon (“Mr. Lo”)	Beneficial owner/Interest of a controlled corporation/Interest of spouse	1,200,739,301 <i>(Note)</i>	19.67%
Ms. Yvette Ong	Beneficial owner	1,090,000	0.018%
Mr. To Hin Tsun, Gerald	Beneficial owner	5,400,000	0.088%
Mr. Tsui Hing Chuen, William	Beneficial owner	500,000	0.008%
Mr. Lau Wai Piu	Beneficial owner	201,200	0.003%

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

(b) Long positions in the underlying shares

Name of Directors	Capacity	Number of shares	Approximate percentage of shareholding
Mr. Lo Lin Shing, Simon	Interest of a controlled corporation/Personal	81,000,000 (Note)	1.327%
Ms. Yvette Ong	Personal	500,000	0.008%
Mr. To Hin Tsun, Gerald	Personal	500,000	0.008%
Mr. Peter Pun	Personal	500,000	0.008%
Mr. Tsui Hing Chuen, William	Personal	500,000	0.008%
Mr. Lau Wai Piu	Personal	500,000	0.008%

Note: Among the 81,000,000 shares, 75,000,000 shares represent interest of Golden Infinity in the underlying shares of the Company with respect to the GI Convertible Note as announced on September 6, 2010. The balancing of 6,000,000 shares represents interest of Mr. Lo on an individual basis under the share option scheme of the Company.

Save as disclosed in the section headed "Share Option Scheme" and above, as at September 30, 2010, none of the Directors, chief executives and their respective associates had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS UNDER THE SFO

The register of interests in shares and short positions maintained under section 336 of the SFO showed that as at September 30, 2010, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

1. Long position of substantial shareholders in the shares and/or underlying shares

Name	Capacity	Long position in shares/ underlying shares	Short position in shares/ underlying shares	Approximate percentage of the Company's total issued share capital
Mr. Liu Cheng Lin ("Mr. Liu")	Beneficial owner/Interest of a controlled corporation	1,525,000,000 (Note 1)	–	24.99%
Puraway Holdings Limited ("Puraway")	Corporate	1,425,000,000 (Note 1)	–	23.35%
Ms. Ku Ming Mei, Rouisa	Beneficial owner/Interest of spouse	1,281,739,301 (Note 2)	–	21.00%
Golden Infinity Co., Ltd.	Corporate	1,269,029,301	–	20.79%
Dr. Cheng Kar Shun	Interest of a controlled corporation/Interest of spouse	394,670,000 (Note 3)	–	6.47%
Ms. Ip Mei Hing	Interest of a controlled corporation/Interest of spouse	394,670,000 (Note 3)	–	6.47%
Dragon Noble Group Limited ("Dragon")	Corporate	325,570,000	–	5.33%
Dato' Dr. Cheng Yu Tung	Interest of a controlled corporation	498,972,602 (Note 4)	–	8.18%
Chow Tai Fook Nominee Limited ("CTF")	Corporate	493,972,602 (Note 4)	–	8.09%

Notes:

1. Mr. Liu is interested in the entire issued share capital of Puraway. By virtue of the SFO, he is deemed to be interested in the 1,425,000,000 shares held by Puraway. The 1,425,000,000 shares held by Puraway represent 925,000,000 shares and 500,000,000 underlying shares.
2. Ms. Ku Ming Mei, Rouisa is the spouse of Mr. Lo and accordingly, she is deemed to be interested in 1,281,739,301 shares under the SFO.
3. Dr. Cheng Kar Shun is interested in the entire issued share capital of Dragon. By virtue of the SFO, he is deemed to be interested in the 325,570,000 shares held by Dragon and 69,100,000 shares are owned by Ms. Ip Mei Hing, the spouse of Dr. Cheng Kar Shun.
4. Dato' Dr. Cheng Yu Tung is interested in the entire issued share capital of CTF. By virtue of the SFO, he is deemed to be interested in the 493,972,602 shares held by CTF. The 493,972,602 shares held by CTF represent 220,000,000 shares and 273,972,602 underlying shares.

Save as disclosed above and those disclosed under "Directors' interest and short positions", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at September 30, 2010.

SHARE OPTION SCHEME

Under the share option scheme adopted by the Company on August 28, 2002 (the “Option Scheme”), options were granted to certain Directors, employees and other eligible participants of the Company entitling them to subscribe for shares of HK\$0.02 each in the capital of the Company.

Details of the movement in outstanding share options, which have been granted under the Option Scheme, during the period are as follows:

Name or category of participant	Date of grant	Exercise price HK\$	Exercise period	Vesting period	Number of shares subject to options				
					As at April 1, 2010	Granted during the period	Lapsed during the period	Exercised during the period (Note 2)	As at September 30, 2010
(A) Directors									
Mr. Lo Lin Shing, Simon	09-04-2010	4.110	9-04-2010 to 08-04-2015	N/A	-	6,000,000 (Note 1)	-	-	6,000,000
Ms. Yvette Ong	09-04-2010	4.110	9-04-2010 to 08-04-2015	N/A	-	500,000 (Note 1)	-	-	500,000
Mr. To Hin Tsun, Gerald	09-04-2010	4.110	9-04-2010 To 08-04-2015	N/A	-	500,000 (Note 1)	-	-	500,000
Mr. Peter Pun	09-04-2010	4.110	9-04-2010 to 08-04-2015	N/A	-	500,000 (Note 1)	-	-	500,000
Mr. Tsui Hing Chuen, William	09-04-2010	4.110	9-04-2010 to 08-04-2015	N/A	-	500,000 (Note 1)	-	-	500,000
Mr. Lau Wai Piu	09-04-2010	4.110	9-04-2010 to 08-04-2015	N/A	-	500,000 (Note 1)	-	-	500,000
Sub-total					-	8,500,000	-	-	8,500,000

Corporate Governance and Other Information

Name or category of participant	Date of grant	Exercise price HK\$	Exercise period	Vesting period	Number of shares subject to options				
					As at April 1, 2010	Granted during the period	Lapsed during the period	Exercised during the period (Note 2)	As at September 30, 2010
(B) Employees and others in aggregate (including a director of certain subsidiaries)	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	670	-	-	-	670
	18-08-2008	6.1420	18-08-2008 to 17-08-2010	N/A	250,000	-	250,000	-	-
	02-02-2009	2.1340	02-02-2009 to 01-02-2012	N/A	2,900,000	-	-	650,000	2,250,000
	06-02-2009	2.2200	06-02-2009 to 05-02-2011	N/A	3,000,000	-	-	-	3,000,000
	01-04-2009	2.3580	01-04-2009 to 31-03-2011	N/A	500,000	-	-	-	500,000
	13-08-2009	2.8900	13-08-2009 to 12-08-2011	N/A	2,000,000	-	-	-	2,000,000
	13-11-2009	4.1700	13-11-2009 to 12-11-2011	N/A	2,000,000	-	-	-	2,000,000
	09-04-2010	4.1100	09-04-2010 to 08-04-2015	N/A	-	3,300,000 (Note 1)	-	-	3,300,000
TOTAL					10,650,670	11,800,000	250,000	650,000	21,550,670

Notes:

- On April 9, 2010, 11,800,000 share options were granted to the Directors and employees under the Option Scheme. The average closing price of the Company's share for the five business days immediately before the date of grant was HK\$3.846. The closing price of the Company's share on April 8, 2010, (the trading day immediately before the grant of the share options) was HK\$4.02.
- The weighted average closing price of the Company's shares immediately before the dates on which share options were exercised during the period was HK\$3.25.

The fair value of share option granted during the period determined using the Trinomial Valuation Model was as follows:

	Date of grant of share option April 9, 2010
Option value at grant date	HK\$23,414,000
Significant inputs into the valuation model:	
Exercise price at grant date	HK\$4.11
Share price at grant date	HK\$4.11
Expected volatility (note)	113.47%
Risk-free interest rate	2.01%
Expected life of options	5 years
Expected dividend yield	0%

Note: The expected volatility is measured at the standard deviation of the expected share price return and is based on statistical analysis of weekly share prices over the last 256 weeks before the respective date of grant. The expected life used in the model has been estimated, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavior considerations.

The Group recognised the total expenses of HK\$23,414,000 for the period ended September 30, 2010 (2009: HK\$3,033,000) in relation to the share options granted by the Company.

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 REPORT

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.4.1 and 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.

The Company, Mr. Lo and Ms. Yvette Ong were censured by the Listing Committee for breach the Listing Rules in relation to clarity of certain announcements issued in 2007. Further details are set out in the press release of the Stock Exchange dated October 28, 2010.

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. 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.

During the period, the Board comprises the following members:

Executive Directors

Mr. Lo Lin Shing, Simon (*Chairman*)

Mr. Liu Zhuo Wei

Ms. Yvette Ong

Non-executive Director

Mr. To Hin Tsun, Gerald

Independent non-executive Directors

Mr. Peter Pun *OBE, JP*

Mr. Tsui Hing Chuen, William *JP*

Mr. Lau Wai Piu

Report on Review of Interim Financial Information

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF MONGOLIA ENERGY CORPORATION LIMITED

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 25 to 49, which comprises the condensed consolidated statement of financial position of Mongolia Energy Corporation Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as of September 30, 2010 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our conclusion, we draw attention to Note 12(a) to the interim financial information. The Group owns an exploration concession of approximately HK\$286 million in Western Mongolia for iron ore which may be revoked as a result of the enactment of the Mining Prohibition Law (the “MPL”) on July 16, 2009. According to the MPL, the affected license holders, including the Group, are to be compensated but the details of the compensation are not currently available. If the Group’s exploration concession is revoked due to the MPL and the compensation received by the Group is significantly less than the consideration the Group paid to acquire this concession, the Group would incur a significant impairment loss on the related exploration and evaluation assets. The ultimate outcome of this matter cannot presently be determined and no provision for an impairment, if any, that may result has been made in the interim financial information.

In addition, we draw attention to Note 1 to the condensed consolidated financial statements indicates that as at September 30, 2010 the Group’s current liabilities exceeded its current assets by approximately HK\$1,839,749,000. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

November 26, 2010

Condensed Consolidated Income Statement

For the six months ended September 30, 2010

		Six months ended	
		September 30,	
		2010	2009
	Notes	HK\$'000	HK\$'000
		(unaudited)	(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)

Condensed Consolidated Income Statement

For the six months ended September 30, 2010

	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
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

	Notes	September 30, 2010 HK\$'000 (unaudited)	March 31, 2010 HK\$'000 (audited)
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	15	122,071	122,058
Reserves		12,886,919	13,026,863
Non-controlling interests		13,008,990	13,148,921
		57	57
Total equity		13,009,047	13,148,978

Condensed Consolidated Statement of Changes in Equity

For the six months ended September 30, 2010

	Attributable to owners of the Company							Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Share option reserve HK\$'000	Exchange translation HK\$'000	Accumulated losses HK\$'000		
At April 1, 2009 (audited)	120,964	9,138,392	199,594	4,184,166	13,181	(64,387)	(332,674)	57	13,259,293
Exchange difference arising on translation	-	-	-	-	-	1,299	-	-	1,299
Loss for the period	-	-	-	-	-	-	(127,948)	-	(127,948)
Total comprehensive income (expense) for the period	-	-	-	-	-	1,299	(127,948)	-	(126,649)
Equity settled share-based payments	-	-	-	-	3,033	-	-	-	3,033
Issue of shares									
– Acquisition of an exploration right (Note 12)	1,092	168,100	-	-	-	-	-	-	169,192
At September 30, 2009 (unaudited)	122,056	9,306,492	199,594	4,184,166	16,214	(63,088)	(460,622)	57	13,304,869
At April 1, 2010 (audited)	122,058	9,306,803	199,594	4,184,166	19,741	(33,362)	(650,079)	57	13,148,978
Exchange difference arising on translation	-	-	-	-	-	(6,171)	-	-	(6,171)
Loss for the period	-	-	-	-	-	-	(158,561)	-	(158,561)
Total comprehensive expense for the period	-	-	-	-	-	(6,171)	(158,561)	-	(164,732)
Equity settled share-based payments	-	-	-	-	23,415	-	-	-	23,415
Issue of shares									
– Exercise of share options	13	2,023	-	-	(650)	-	-	-	1,386
At September 30, 2010 (unaudited)	122,071	9,308,826	199,594	4,184,166	42,506	(39,533)	(808,640)	57	13,009,047

Condensed Consolidated Statement of Cash Flows

For the six months ended September 30, 2010

	Six months ended	
	September 30,	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(107,446)	(88,311)
Net cash used in investing activities		
Net cash outflow from acquisition of an exploration right through acquisition of subsidiaries	-	(77,485)
Purchase of property, plant and equipment	(98,782)	-
Proceeds received from early redemption of loan note receivable and interest received	46,287	-
Refund of deposit paid for aircraft	124,610	-
Exploration and evaluation asset additions	(62,201)	(28,841)
Development in progress additions	(138,721)	(161,561)
Disposal of subsidiaries	36,129	-
Other investing cash flows	(45,803)	(9,862)
	(138,481)	(277,749)
Net cash generated from (used in) financing activities		
Proceeds received from issue of convertible note	300,000	-
Short term advances from the Director	170,000	-
Repayment of short term advances from the Director	(170,000)	-
Other financing cash flows	(3,650)	(4,187)
	296,350	(4,187)
Net increase (decrease) in cash and cash equivalents	50,423	(370,247)
Cash and cash equivalents at beginning of the period	121,299	660,889
Effect on foreign exchange rate changes	2,383	1,299
Cash and cash equivalents at end of the period	174,105	291,941

Notes to the Condensed Consolidated Financial Statements

For the six months ended September 30, 2010

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 18 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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 Note 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 Requirement 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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended September 30, 2010

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		
	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)

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended September 30, 2010

4. FINANCE COSTS

	Six months ended	
	September 30,	
	2010	2009
	HK\$'000	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	-	-

Notes to the Condensed Consolidated Financial Statements

For the six months ended September 30, 2010

8. DISCONTINUED OPERATION *(Continued)*

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
	<hr/> 36,175
Satisfied by:	
Cash	36,175
	<hr/>
Net cash inflow arising on disposal:	
Total cash consideration received	36,175
Cash and cash equivalents disposal of	(46)
	<hr/> 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)
	Six months ended September 30,	
	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

12. EXPLORATION AND EVALUATION ASSETS *(Continued)*

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended September 30, 2010

12. EXPLORATION AND EVALUATION ASSETS *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

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 HK\$'000	March 31, 2010 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended September 30, 2010

14. CONVERTIBLE NOTES *(Continued)*

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 HK\$'000	March 31, 2010 HK\$'000	September 30, 2010 HK\$'000	March 31, 2010 HK\$'000	September 30, 2010 HK\$'000	March 31, 2010 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. SHARE CAPITAL

Authorised and issued share capital

	September 30, 2010 HK\$'000	March 31, 2010 HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.02 each	300,000	300,000
	Number of ordinary shares at HK\$0.02 each	Amount HK\$'000
Issued and fully paid:		
At April 1, 2009	6,048,220,363	120,964
Issue of shares		
– Acquisition of an exploration right (Note 12)	54,577,465	1,092
– Exercise of share options	100,000	2
At March 31, 2010 and April 1, 2010	6,102,897,828	122,058
Issue of shares		
– Exercise of share options	650,000	13
At September 30, 2010	6,103,547,828	122,071

Notes to the Condensed Consolidated Financial Statements

For the six months ended September 30, 2010

16. CAPITAL COMMITMENTS

As at September 30, 2010, the Group had capital commitments contracted for but not provided for amounting to approximately HK\$612,188,000 (March 31, 2010: HK\$179,837,000). These commitments are for the following projects:

	September 30, 2010 HK\$'000	March 31, 2010 HK\$'000
Road construction	471,583	53,861
Road improvement and drilling equipment transport	34,455	34,455
Exploration drilling	37,855	46,319
Water drilling	17,505	4,068
Rotary Breaker	8,695	–
Mine design	454	454
Other exploration related commitments	41,641	36,737
Purchase of property, plant and equipment	–	3,516
Purchase of intangible assets	–	427
	612,188	179,837

17. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the condensed consolidated financial statements, significant related party transactions are as follows:

(a) Charter flight services income

	Six months ended September 30, 2010 HK\$'000	2009 HK\$'000
Associate	–	810

17. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Charter flight services expense

	Six months ended September 30,	
	2010	2009
	HK\$'000	HK\$'000
Associate	-	7,209

(c) Key management compensation

	Six months ended September 30,	
	2010	2009
	HK\$'000	HK\$'000
Basic salaries, other allowances and benefits in kind	10,395	8,600
Share-based payments (Note)	19,842	2,543
Contributions to pension scheme	30	18
	30,267	11,161

Note:

In the current period, 10,000,000 share options were granted on April 9, 2010 to the Group's key management. The fair values of the total options determined at the date of grant was using the Trinomial model.

18. 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.



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