MONGOLIA INVESTMENT GROUP LIMITED

蒙古投資集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 402)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Mongolia Investment Group Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 September 2011 together with the comparative figures for the corresponding period in 2010 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 September 2011

		Six months ended 30 September	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*4*	**425,322**	410,147
Cost of revenue		**(410,743)**	(398,209)
Gross profit		**14,579**	11,938
Other income and gains	*4*	**2,510**	9,146
Administrative expenses		**(48,662)**	(26,760)
Operating loss	*6*	**(31,573)**	(5,676)
Finance costs	*7*	**(43,309)**	(28,643)
Loss before income tax		**(74,882)**	(34,319)
Income tax expense	*8*	**–**	(7)
Loss for the period		**(74,882)**	(34,326)

	Notes	Six months ended 30 September **2011** **(Unaudited)** ***HK$'000***	 2010 (Unaudited) *HK$'000*
Attributable to:			
Owners of the Company		**(74,691)**	(34,308)
Non-controlling interests		**(191)**	(18)
		(74,882)	(34,326)
Loss per share	*10*	***HK cents***	*HK cents*
– Basic		**(0.83)**	(0.82)
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 September 2011

	Six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss for the period	**(74,882)**	(34,326)
Other comprehensive income		
Exchange difference arising from translation of overseas operations	**(91,159)**	38,389
Total comprehensive income for the period	**(166,041)**	4,063
Attributable to:		
Owners of the Company	**(165,928)**	4,081
Non-controlling interests	**(113)**	(18)
	(166,041)	4,063

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 September 2011

	Notes	At 30 September 2011 (Unaudited) *HK$'000*	At 31 March 2011 (Audited) *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**117,577**	112,425
Prepaid land lease payments		**482**	630
Mining licences		**2,251,927**	2,377,648
Exploration and evaluation assets		**27,446**	28,139
Prepayments and deposits		**3,824**	4,038
Derivative financial asset			
– Derivative Component of the Convertible Note	*13(b)*	**66,813**	80,342
		2,468,069	2,603,222
Current assets			
Inventories		**59,357**	58,976
Amounts due from customers of contract works		**256,284**	238,124
Trade and other receivables, prepayments and deposits	*11*	**129,960**	100,466
Tax recoverable		**286**	–
Pledged bank deposits		**22,405**	32,501
Cash at banks and in hand		**279,677**	290,666
		747,969	720,733
Current liabilities			
Trade and other payables	*12*	**91,301**	75,529
Tax payable		**417**	117
Borrowings	*13*	**417,672**	138,004
		509,390	213,650
Net current assets		**238,579**	507,083
Total assets less current liabilities		**2,706,648**	3,110,305
Non-current liabilities			
Borrowings	*13*	**428,500**	811,605
Government subsidies		**7,330**	7,740
Deferred tax liabilities		**568,482**	599,976
		1,004,312	1,419,321
Net assets		**1,702,336**	1,690,984
EQUITY			
Share capital		**459,899**	356,399
Reserves		**1,242,946**	1,334,981
Equity attributable to owners of the Company		**1,702,845**	1,691,380
Non-controlling interests		**(509)**	(396)
Total equity		**1,702,336**	1,690,984

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 30 September 2011

1. GENERAL INFORMATION

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

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

The unaudited condensed consolidated financial statements for the six months ended 30 September 2011 (the "**Interim Financial Statements**") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The Interim Financial Statements do not include all of the information and disclosure required in the annual financial statements and thereby they should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2011.

The Interim Financial Statements are unaudited, but have been reviewed by the Company's Audit Committee. The Interim Financial Statements were approved for issue by the Board on 30 November 2011.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in preparing the Interim Financial Statements are consistent with those followed in the Group's annual financial statements for the year ended 31 March 2011 with the adoption of certain standards and interpretations of Hong Kong Financial Reporting Standards ("**HKFRSs**") issued and became effective in the current interim period as described below.

3. ADOPTION OF NEW OR REVISED HKFRSs

In the current period, the Group has applied for the first time the following new or amended HKFRSs issued by the HKICPA which are relevant to and effective for the Group's financial statements for the period.

HKAS 24 (Revised)	Related Party Disclosures
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010

3. ADOPTION OF NEW OR REVISED HKFRSs *(Continued)*

Other than as noted below, the adoption of these new or amended HKFRSs did not result in significant changes in the Group's accounting policies.

(a) Adoption of HKAS 24 (Revised) "Related Party Disclosures"

The revision clarifies and simplifies the definition of a related party. The revised definition is of narrower or wider scope than before depending on the particular situation. The revised standard is clear that it also applies to commitments between an entity and its related parties.

(b) Amendment to HKAS 34 "Interim Financial Reporting"

It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue from the Group's principal activities, which is also the Group's turnover, and other income and gains is as follows:

	Six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Contract revenue from maintenance and construction works on civil engineering contracts	**424,920**	409,783
Revenue from water supply services	**315**	267
Water supply related installation fee	**87**	97
	425,322	410,147
Other income and gains		
Bank interest income	**94**	107
Exchange gains	**–**	3,622
Fair value change on the Derivative Component of the Convertible Note *(note 13(b))*	**2,299**	5,381
Sundry income	**117**	36
	2,510	9,146
Total income	**427,832**	419,293

5. SEGMENT INFORMATION

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

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

Each of these operating segments is managed separately as each of the business lines requires different resources as well as operating approaches.

Fair value change on the Derivative Component of the Convertible Note (note 13(b)), finance costs, income taxes and corporate income and expenses which are not directly attributable to the business activities of any operating segment, are not included in arriving at the operating results of the operating segment.

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

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

	Waterworks engineering contracting business Six months ended 30 September		Water supply business Six months ended 30 September		Mining and exploration business Six months ended 30 September		Consolidated Six months ended 30 September	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue	**424,920**	409,783	**402**	364	**–**	–	**425,322**	410,147
Reportable segment (loss)/profit	**(442)**	926	**(866)**	(447)	**(32,194)**	(1,379)	**(33,502)**	(900)

	As at 30 September 2011	As at 31 March 2011	**As at 30 September 2011**	As at 31 March 2011	**As at 30 September 2011**	As at 31 March 2011	**As at 30 September 2011**	As at 31 March 2011
	(unaudited)	(audited)	**(unaudited)**	(audited)	**(unaudited)**	(audited)	**(unaudited)**	(audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**532,552**	552,912	**14,504**	14,978	**2,578,559**	2,642,434	**3,125,615**	3,210,324

5. SEGMENT INFORMATION *(Continued)*

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

	Six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Reportable segment loss	**(33,502)**	(900)
Fair value change on the Derivative Component of the Convertible Note *(note 13(b))*	**2,299**	5,381
Corporate income and expenses	**(370)**	(10,157)
Finance costs	**(43,309)**	(28,643)
Loss before income tax	**(74,882)**	(34,319)

6. OPERATING LOSS

	Six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Operating loss is arrived at after charging:		
Amortisation of prepaid land lease payments	**127**	60
Depreciation of property, plant and equipment		
– owned assets	**6,352**	5,276
– leased assets	**82**	113
	6,434	5,389
Less: Amounts capitalised in mine development assets (included in property, plant and equipment)	**(344)**	–
Net depreciation of property, plant and equipment	**6,090**	5,389
Exchange losses	**8,190**	–
Staff costs (including Directors' emoluments)		
– salaries, allowances and benefits in kind	**65,979**	60,031
– retirement benefits scheme contributions (defined contribution plan)	**1,922**	2,107
– equity-settled share-based compensation	**4,667**	–
	72,568	62,138
Operating lease charges		
– land and buildings	**2,525**	1,066
– plant and machinery	**2,370**	2,629
	4,895	3,695
Loss on disposal of property, plant and equipment	**503**	749

7. FINANCE COSTS

	Six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest charges on:		
– Bank loans and overdraft wholly repayable within five years	**1,219**	1,418
– Interest element of finance lease payments	**6**	28
	1,225	1,446
Imputed interest expenses on Promissory Note *(note 13(a))*	**16,185**	8,559
Imputed interest expenses on Convertible Note *(note 13(b))*	**25,899**	18,638
Total interest on financial liabilities stated at amortised cost	**43,309**	28,643

8. INCOME TAX EXPENSE

No income tax is provided for current period as there is no assessable profit derived. Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for last interim period.

	Six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax for the period		
– Hong Kong profits tax	**–**	7

9. DIVIDENDS

No dividend has been paid or declared by the Company in respect of the current and last interim period.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period attributable to the owners of the Company of HK$74,691,000 (six months ended 30 September 2010: HK$34,308,000) and the weighted average number of ordinary shares in issue during the period of 30 September 2011 of 9,034,537,000 (six months ended 30 September 2010: 4,171,167,000).

Diluted loss per share is not presented as the impact of the Convertible Note as disclosed in note 13(b) and the outstanding share options had an anti-dilutive effect on the basic loss per share presented.

11. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	At 30 September 2011 (Unaudited) ***HK$'000***	At 31 March 2011 (Audited) *HK$'000*
Trade receivables	**43,973**	14,772
Retention receivables	**32,644**	31,851
Prepaid land lease payments	**220**	234
Prepayments and deposits	**18,472**	19,775
Other receivables	**34,651**	33,834
	129,960	100,466

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

	At 30 September 2011 (Unaudited) ***HK$'000***	At 31 March 2011 (Audited) *HK$'000*
Within 3 months	**43,971**	14,769
Over 1 year	**2**	3
	43,973	14,772

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

12. TRADE AND OTHER PAYABLES

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

	At 30 September 2011 (Unaudited) *HK$'000*	At 31 March 2011 (Audited) *HK$'000*
Trade payables aged		
– Within 3 months	**64,466**	53,980
– 4 to 6 months	**7,101**	4,352
– 7 to 9 months	**598**	908
– 10 to 12 months	**115**	78
– Over 1 year	**1,817**	1,740
	74,097	61,238
Retention payables	**3,902**	3,911
Other payables and accruals	**13,302**	10,380
	91,301	75,529

13. BORROWINGS

	At 30 September 2011 (Unaudited) *HK$'000*	At 31 March 2011 (Audited) *HK$'000*
Current liabilities		
Bank loans and overdraft, secured	**91,856**	137,645
Finance lease liabilities	**159**	359
Promissory Note *(note (a))*	**325,657**	–
	417,672	138,004
Non-current liabilities		
Finance lease liabilities	**–**	13
Promissory Note *(note (a))*	**–**	309,472
Convertible Note – liability component *(note (b))*	**428,500**	502,120
	428,500	811,605
Total borrowings	**846,172**	949,609

13. **BORROWINGS** *(Continued)*

Notes:

(a) As part of the consideration for the acquisition of Mongolia Investment Group Limited (formerly known as Well Delight Holdings Limited) on 17 June 2010 (the "**Acquisition**"), the Company issued a promissory note in principal amount of HK$350,000,000 (the "**Promissory Note**"). The Promissory Note is unsecured, non-interest bearing and will mature in two years from the date of issue of the Promissory Note on 17 June 2012. As at the reporting date, the Promissory Note is due within one year and is re-classified from non-current liability to current liability in current interim period.

The fair value of the Promissory Note on the date of the Acquisition on 17 June 2010 was HK$285,614,000, which was determined based on the valuation using discounted cash flows method carried out by Asset Appraisal Limited, an independent professional valuer. The carrying value of the Promissory Note as at 30 September 2011 was HK$325,657,000 (at 31 March 2011: HK$309,472,000).

The Promissory Note is subsequently measured at amortisation cost using effective interest method by applying an effective interest rate of 10.70% per annum. Imputed interest expenses of approximately HK$16,185,000 (note 7) (six months ended 30 September 2010: HK$8,559,000) has been recognised in the profit or loss of the current interim period.

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

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

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

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

13. BORROWINGS *(Continued)*

Notes: (Continued)

(b) *(Continued)*

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

	Liability component *(Unaudited) HK$'000*	**Equity component** *(Unaudited) HK$'000*	**Derivative Component** *(Unaudited) HK$'000*
Carrying amount at 1 April 2011	502,120	434,124	(80,342)
Imputed interest expenses *(note (i))*	25,899	–	–
Change in fair value recognised in profit or loss *(note (ii))*	–	–	(2,299)
Conversion of Convertible Note *(note (iii))*	(99,519)	(85,529)	15,828
Carrying amount at 30 September 2011	428,500	348,595	(66,813)

Notes:

(i) The liability component is subsequently measured at amortised cost using effective interest method by applying an effective interest rate of 12.91% per annum. Imputed interest expense of approximately HK$25,899,000 (note 7) (six months ended 30 September 2010: HK$18,638,000) was recognised in profit or loss of the current interim period.

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

(iii) During the period, 750,000,000 (six months ended 30 September 2010: 5,000,000) Conversion Shares were issued upon conversion of the Convertible Note in total amount of HK$165,000,000 (six months ended 30 September 2010: HK$1,100,000). At the time of conversion, the proportional amounts of the convertible note equity reserve, the Derivative Component and the carrying value of the liability component were transferred to share capital and share premium as proceeds for the shares issued.

14. CONTINGENT LIABILITIES AND LITIGATIONS

(a) In prior financial years, the Group received from an ex-subcontractor two claims in respect of two completed projects. During last financial year, a writ of summons was served to a subsidiary of the Company as defendant in respect of the two claims seeking the recovery of a sum of approximately HK$9.5 million in aggregate. The Group made a counterclaim against the ex-subcontractor for overpayment of approximately HK$8.6 million. The claims are under legal proceedings. As at 30 September 2011 and up to the date of this report, the legal proceedings are still in progress. There is no material progress in respect of the claims subsequent to the interim reporting period. Based on the advice from the legal advisers of the Group, the Directors believe that the Group has a good case not only to defend but also to counterclaim the overpaid amount. Accordingly, the Directors consider that the claims from the ex-subcontractor will unlikely result in any material financial impact on the Group.

(b) On 23 March 2011, two of the Company's Directors and others (the "**Plaintiffs**") commenced legal proceedings to claim against the Company and other Directors for various relief including an injunction preventing the Company from proceeding with the proposed placing of shares pursuant to the resolution purportedly passed by the Board on 21 March 2011. The Plaintiffs have not claimed against the Company for damages and the liabilities of the Company are limited to costs at this stage. The Plaintiffs have made an application for an interlocutory injunction. However, up to the date of this Interim Financial Statements, the Plaintiffs have not fixed a hearing date for the application of interlocutory injunction. Based on the advice of the Senior Counsel retained by the Company, the Plaintiffs' application for injunction has little hope of success. As a matter of fact, the placing of shares has been completed on 13 April 2011.

(c) Apart from the above, as at 30 September 2011, a number of lawsuits and claims arising from the normal course of business were lodged against the Group which remain outstanding as at the date of this Interim Financial Statements. Claim amounts are not specified in the applications of these lawsuits and claims. In the opinion of the Directors, sufficient insurance coverage are maintained to cover the losses, if any, arising from these lawsuits and claims and therefore the ultimate liability under these lawsuits and claims would not have a material adverse impact on the financial position of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2011, the Group continued to achieve stable revenue from its waterworks business while dedicating efforts to facilitate profitable output at its Mongolia mine sites. In 2010, the Group transformed into a Mongolian resources-related conglomerate through the acquisition of Tugrugnuuriin Energy LLC ("**TNE**"), which holds four mining licences for a coal mine in Tugrug Valley (the "**TNE Mine**"), located approximately 170 km southeast of Ulaanbaatar, Mongolia. Preparatory work at the TNE Mine went well with development of basic infrastructure achieving satisfactory progress during the review period. On the other hand, the Group's waterworks business continued to benefit from a number of public sector projects, with steady revenue generating mainly from contracts awarded by the Water Supplies Department ("**WSD**").

Mining Business in Mongolia

The Mongolian government in recent years has been proactive in encouraging resource-related overseas investments, while both the local Mongolian community and the People's Republic of China serve as vast markets for such high quality resources at close proximity. The Group currently holds four coal mining licences that cover a 1,114 hectares coal mine at Tugrug Valley. The Group also holds three exploration licences in respect of coal deposits in DundGobi (14,087 hectares), two exploration licences in respect of gold and copper deposits in Gobi-Altai (44,016 hectares), and two exploration licences in respect of gold and copper in Zavkhan (15,517 hectares), all located in Mongolia.

During the review period, preparatory work at the mine site has been set up, including the leasing of relevant equipment and machineries, power supply commissioning, as well as set up of dewatering treatment systems, etc. The Group has conducted several mining feasibility studies and obtained a mine operation permit from the Mongolian authorities for the TNE Mine.

Subsequently, mining has commenced, the output of coal from the TNE Mine during the period under review was about 748 tonnes, which was below our forecast in quantity. The Group also conducted further drilling works and laboratory tests to determine the structure and thickness of coal layer and to verify coal quality. The calorific value range of the resulted coal products were not adequate for contributing profitable output. In order to outweigh mining production cost escalation and achieve cost efficiency, the Group will focus on excavation and sale of coal with a calorific value of around 5,000 Kcal/kg or above. For this purpose, the Group will engage an independent mining expert to review and advise on its mining plan.

The Group has commenced upgrading the basic infrastructure of the mine camp. The Group also conducted an environmental impact assessment at Maanit railway station, which is located roughly 60km from the mine site. This will be the main railway station from which the Group's coal products will be transported to its customers. Construction of a compacted haul road connecting the mine to the loading point at Maanit railway station has already been completed.

Exploration activities at other regions where the Group holds exploration licences continued, and the Group has engaged independent mining experts to conduct feasibility studies at these regions.

Waterworks Business in Hong Kong

The waterworks business continued to be a key source of revenue for the Group during the review period. Major revenue contributors driving this area of activity have been two waterworks maintenance projects from WSD, both of which have realized good progress since they were won in preceding years. Combined, the two contracts account for approximately 67% of the Group's total revenue, and are detailed below:

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

2. Term Contract for Waterworks District W - New Territories West (contract number: 1/WSD/09(W))

Another significant source of revenue came from two water mains replacement and rehabilitation projects that have been underway since the 2010 financial year, accounting for roughly 22% of the Group's total revenue. Details of the projects are as follows:

1. Replacement and Rehabilitation of Water Mains, Stage 3 - Mains in East Kowloon (Package A) (contract number: 7/WSD/08)

2. Replacement and Rehabilitation of Water Mains, Stage 3 - Mains on Hong Kong Island South and Outlying Islands (contract number: 18/WSD/08)

Capitalizing on the Government's various infrastructural maintenance initiatives, the Group has won two replacement and rehabilitation of water mains contracts and one slope preventive maintenance project during the period under review, valued at about HK$1.3 billion in total. Details of the three projects are as follows:

1. Replacement and Rehabilitation of Water Mains, Stage 4 Phase 1 — Mains in Central & Western and Wan Chai Districts (contract number: 11/WSD/10), estimated completion in June 2015

2. Replacement and Rehabilitation of Water Mains, Stage 4 Phase 1 — Mains in East Kowloon (contract number: 14/WSD/10), estimated completion in August 2015

3. Preventive Maintenance Works, Upgrading Works and Associated Ground Investigations Works for WSD Slopes 2009-2010 Program (contract number: 6/WSD/10), estimated completion in November 2014

FINANCIAL REVIEW

For the six months ended 30 September 2011, the Group recorded revenue of HK$425.3 million, representing a year-on-year increase of 3.7% (six months ended 30 September 2010: HK$410.1 million). This was largely due to steady income provided by two waterworks maintenance projects which began in September 2009, and two major water mains replacement and rehabilitation projects that commenced in early 2009.

Basic loss per share was HK0.83 cents (six months ended 30 September 2010: HK0.82 cents). This has included (i) imputed interest expenses of HK$42.1 million on Promissory Note and Convertible Note issued as part of consideration for the Acquisition (six months ended 30 September 2010: HK$27.2 million); and (ii) fair value change on the Derivative Component of the Convertible Note amounted to HK$2.3 million (six months ended 30 September 2010: HK$5.4 million). If the above-mentioned items (i) and (ii) were to be excluded, the basic loss per share was HK0.39 cents.

Revenue Breakdown by Business

During the review period, revenue from maintenance contracts for waterworks rose by 23.3% to HK$286.2 million (six months ended 30 September 2010: HK$232.1 million), accounting for 67.3% of the Group's total revenue (six months ended 30 September 2010: 56.6%). Revenue derived from water mains replacement and rehabilitation projects have dropped by 22.7% to HK$117.7 million (six months ended 30 September 2010: HK$152.2 million), accounting for 27.7% of the Group's total revenue (six months ended 30 September 2010: 37.1%). Landslip prevention projects generated total revenue of HK$16.7 million, accounting for 3.9% of the Group's total revenue (six months ended 30 September 2010: 5.4%).

Gross Profit

Gross profit increased by approximately 22.1% to HK$14.6 million (six months ended 30 September 2010: HK$11.9 million) and gross profit margin slightly increased to 3.4% (six months ended 30 September 2010: 2.9%).

Capital Expenditure

During the period under review, the Group spent HK$15.0 million on the acquisition of property, plant and equipment in Hong Kong and Mongolia (six months ended 30 September 2010: HK$19.1 million).

Operating Expenses

During the period under review, the Group's administrative expenses amounted to HK$48.7 million (six months ended 30 September 2010: HK$26.8 million), mainly consisted of legal and professional fees and staff costs (including Directors' emoluments). The increase in administrative expenses was mainly due to increase in non-cash items such as share-based compensation on share options granted by the Company on 25 October 2010, and exchange losses arising from the Mongolian operations.

Liquidity & Financial Resources

As at 30 September 2011, cash at banks and in hand and pledged bank deposits reached HK$302.1 million (at 31 March 2011: HK$323.2 million). Total borrowings, including Promissory Note and Convertible Note issued as part of consideration for the Acquisition, as at the end of the review period were HK$846.2 million (at 31 March 2011: HK$949.6 million). The Group's current ratio, being the ratio of current assets to current liabilities, was 1.5 times (at 31 March 2011: 3.4 times), and its gearing ratio, in terms of total borrowings net of cash at banks and in hand and pledged bank deposits to total equity, stood at 32.0% (at 31 March 2011: 37.0%).

Foreign Exchange Risk Management

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

Contingent Liabilities

Other than those disclosed in note 14 to the Interim Financial Statements, the Company provided corporate guarantees on the banking facilities granted to its subsidiaries. The amount of facilities utilised by the subsidiaries as at 30 September 2011 amounted to HK$102.0 million (at 31 March 2011: HK$148.0 million).

Capital Structure

During the period under review, the Company completed a placing of 1,320,000,000 new shares to certain independent third parties, details of which were more particularly described in the Company's announcement dated 22 March 2011. The proceeds from the placing amounted to approximately HK$88.4 million (before share issue expenses of HK$1.8 million). During the same period, Convertible Note amounted to HK$165.0 million were converted at the conversion price of HK$0.22 per share whereby a respective total number of 750,000,000 shares were issued. Details of which are set out in note 13(b) to the Interim Financial Statements.

Human Resources

As at 30 September 2011, the Group had approximately 694 employees (at 30 September 2010: 647 employees) with nearly 100% holding permanent positions. Total staff costs, including Directors' emoluments for the period under review amounted to HK$72.6 million (six months ended 30 September 2010: HK$62.1 million).

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

PROSPECTS

Moving forward, the Group will continue to develop the operations at the TNE Mine gradually, the management team will closely monitor operation flow with the objective of securing off-take agreements with customers. Exploration activities and feasibility studies within exploration licenced areas will continue given the management is optimistic about the long-term outlook of the commodities market.

In respect of the waterworks business, the management remains confident about its prospects. With the Hong Kong government's commitment towards implementing more infrastructural development projects mentioned in its 2011 Policy Address, it is believed the Group's waterworks business will benefit from such significantly. The Group will duly seek to secure new public sector contracts, thereby drawing additional sources of income.

With steady developments in the waterworks business and the mining operation in Mongolia, the management will continue to dedicate efforts to delivering satisfactory returns to shareholders in the long run.

INTERIM DIVIDEND

No dividend has been paid or declared by the Company in respect of the current and last interim period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

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

The Company has complied with the applicable code provisions of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules for the six months ended 30 September 2011.

Since 1 April 2011, the composition of the Board has undergone the following changes:

1. Mr. HO Hin Hung, Henry was re-designated from executive Director to non-executive Director on 28 April 2011.

2. Mr. WONG Tak Chung resigned as executive Director with effect from 27 July 2011.

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions. The obligations to comply with the Listing Rules are set out in the terms of the service contracts of each executive Director and the letters of appointment of each non-executive Director and independent non-executive director. The Company has made specific enquires with the Directors, and all Directors have confirmed that they have complied with the requirements set out under the Model Code for the six months ended 30 September 2011.

AUDIT COMMITTEE

As at the date of this report, the audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely Mr. TAM Tsz Kan (as chairman of the Audit Committee), Mr. CHAN, Sai Kit Kevin and Mr. LIAO Cheung Tin, Stephen. The Audit Committee has, at the date of this report, reviewed with the Company's management and the auditors of the Company, the internal controls and financial reporting matters of the Company and the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2011 before submitting to the Board for approval. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

The interim results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited (the "**HKEX**") at www.hkex.com.hk under "Latest Listed Company Information" and the Company's website at www.migmgl.com. The interim report of the Company for the six months ended 30 September 2011 will be despatched to the shareholders of the Company and published on the HKEX's and the Company's websites in due course.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to all shareholders, business partners, banks, professional parties and employees of the Company for their continuous patronage and support.

On behalf of the Board of
Mongolia Investment Group Limited
YUEN Wai Keung
Deputy Chairman and Chief Executive Officer

Hong Kong, 30 November 2011

As at the date of this announcement, the executive Directors are Messrs. YUEN Chow Ming (Chairman), YUEN Wai Keung (Deputy Chairman and Chief Executive Officer), SO Yiu Cheung (Deputy Chairman), CHEUNG Chi Man, Dennis, LIM Siong, Dennis, ENEBISH Burenkhuu and LEUNG, Chung Tak Barry, and the non-executive Director is Mr. HO Hin Hung, Henry, and the independent non-executive Directors are Messrs. CHAN, Sai Kit Kevin, LIAO Cheung Tin, Stephen and TAM Tsz Kan.