MEC

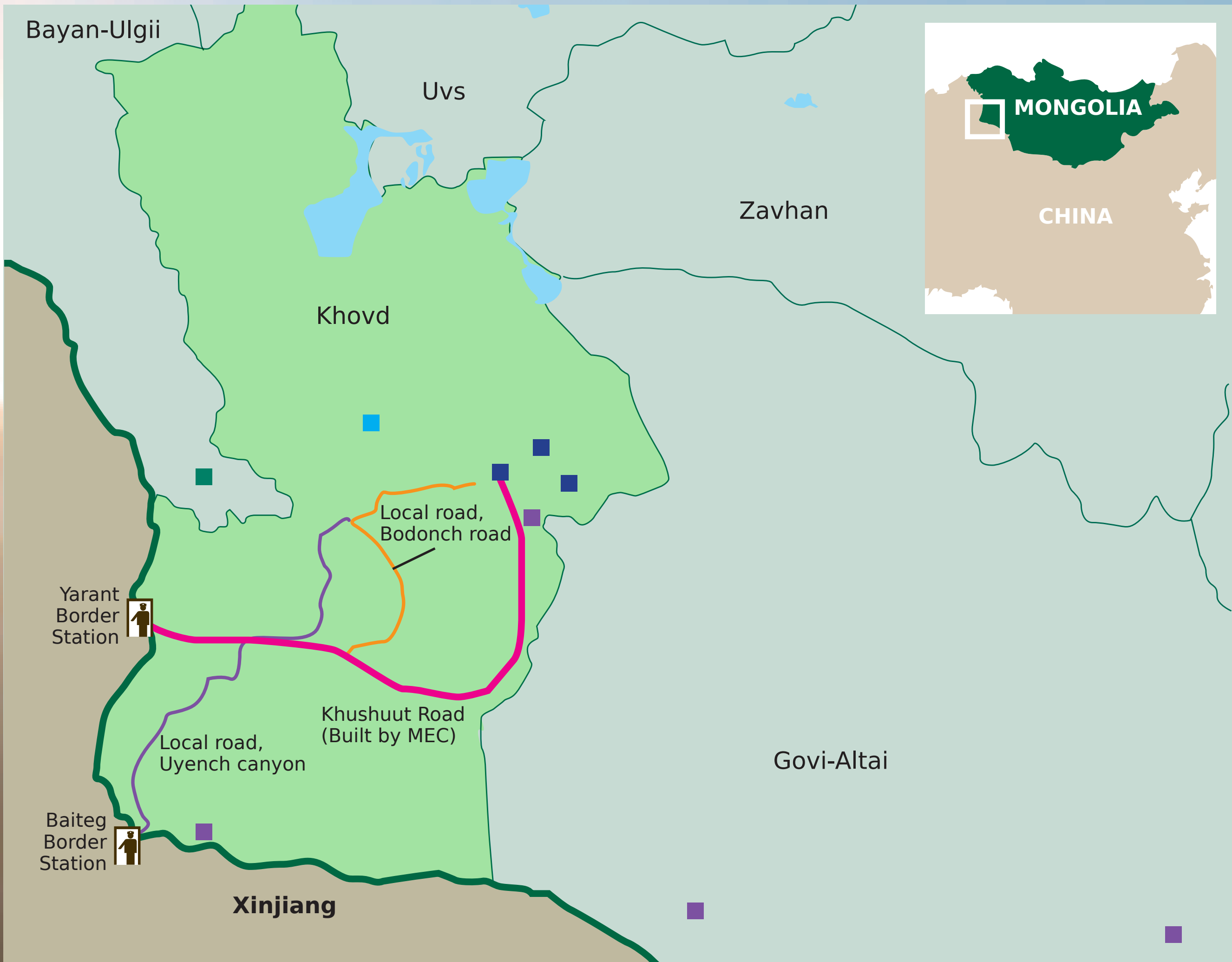
MONGOLIA ENERGY CORPORATION

蒙 古 能 源 有 限 公 司

Incorporated in Bermuda with limited liability
Stock Code: 276

Interim Report 2011

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

Local road, Uyench canyon

Local road, Bodonch road

Khushuut road (Built by MEC)

Country boundary

Province boundary

Lake

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

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 has entered into various acquisitions of concessions for resources. We have an aggregate concession areas of approximately 330,000 hectares for coal, ferrous and non-ferrous metal resources in Western Mongolia at Khushuut, Darvi, Gants Mod, Olon Bulag, Govi-Altai and Bayan-Ulgii.

Contents

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, announcements and reports 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 do not materialize or turn out to be incorrect. Subject to the requirements of the Hong Kong Listing Rules, MEC does not undertake to update any forward-looking statements or opinions contained in this Report.

Chairman's Statement

Dear Shareholders,

I am pleased to report to you that the Khushuut Road, our main infrastructure, has been completed. The Road is an artery of our operation and is built by us for our commercial use in exporting coal products from the Khushuut Coal Mine to our clients in Xinjiang, the People's Republic of China. This is an exceptional achievement to have turned an exploration project into a mining operation, which could easily take over a decade, in just 4 years time.

Upon commencement of our commercial production at Khushuut, we will focus on fulfilling the coal commitment to our existing clients, such as Bayi Steel. We aim to ramp up our production capacity as soon as possible, and to improve our product quality and reduce transportation cost. Moreover, we will continue our exploration efforts in order to identify more mining prospects. We will also be in a position to explore business opportunities with other potential customers.

The demand for premium coking coal products in Xinjiang and nearby regions remains robust. A recent market study by Shanxi Fenwei Energy Consulting Co., Ltd. shows that the steel market and the demand for high quality coking coal in Xinjiang are growing rapidly. It further states that coking coal products with Khushuut's unique qualities, particularly the low volatile matter, which is highly desirable in the coke making process, are scarce in Xinjiang thus creating a strong demand.

In addition to the Khushuut Coking Coal Project, we continue to look for new potential projects through continuous exploration in our existing concessions areas of over 330,000 hectares. We have done reconnaissance work, geological mapping, rock chip sampling, core drilling, and analytical study during the financial period, and we will continue these efforts in order to identify new projects that could potentially bring values to the Company. In addition, we look for opportunity to grow by evaluating potential investment in Mongolia, China, and the rest of the world.

Economic growth in China, particularly our targeted market of western China, remains promising, and Mongolia's economy is growing at a rapid pace. In the first half of 2011, Mongolia registered impressive real GDP growth and nominal GDP growth of 14.3% and 29.1% year-on-year respectively. The mining industry is the key sector contributing to this high growth, and the coal mining industry is expected to remain one of the fastest growing industries. While China continues to be the world's largest producer and consumer of coal, Mongolia's coking coal export to China grew 37% year-on-year by volume and overtook Australia as the largest exporter of coking coal to China in the first 10 months of 2011. With our Khushuut Coking Coal Project coming into commercial production, we are confident that we are in an advantageous position to enjoy the upside of the commodity sector and the economic growth of China.

We have also been approached by potential investors from time to time for discussing cooperating potentials of our projects in Mongolia. We will consider from the Group's and shareholders' perspective each and every proposal that will bring out the maximum potential and development of the Group.

Lo Lin Shing, Simon
Chairman

28 November 2011

Management Discussion and Analysis

OVERVIEW

Our principal project is the Khushuut Coking Coal Project. The Khushuut Coal Mine is located approximately 1,350 km west of Ulaanbaatar in the Aimag (province) of Khovd in Western Mongolia. The Khushuut Coal Mine is about 311 km from the Xinjiang Takeshenken border, connecting by the Khushuut Road built by us.

During the six-month period ended 30 September 2011 (the "**Financial Period**"), we focused on the completion of the Khushuut Road, by actively coordinating with the road contractors for the building process, and with the government authorities for the road examination and inspection prior to road commissioning. There was no coal delivery during this Financial Period pending the completion and commissioning of the Khushuut Road.

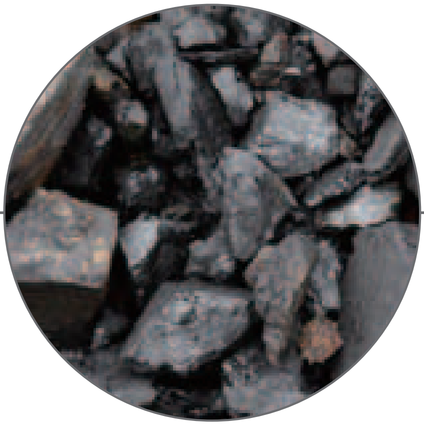
The Khushuut Road of 311 km running from our Khushuut Coal Mine to the Yarant border in Mongolia and the Takeshenken border in Xinjiang has now been completed, and on 6 November 2011, the State Commission of Mongolia conducted inspection of the Road. We are awaiting the formal approval from the Mongolian Government on the road commissioning.

RESULTS ANALYSIS

During the Financial Period, as mentioned, our effort was spent on getting completion of the remaining section of the Khushuut Road and to secure its commissioning.

As reported in the last annual report, the previous shipments were conducted on a test basis. We did not have any coal shipment during this Financial Period before the granting of the formal approval/permit by the Mongolian authorities on commissioning of the Khushuut Road.

As no shipment had been conducted, no turnover was recorded during the Financial Period.



Fair value gain on the derivative component of the convertible notes amounting HK$390.1 million was recorded (2010: Nil). It was mainly arising from the new convertible note of HK$2 billion issued during the Financial Period. The convertible note contains two components, a liability component and a derivative component. The derivative component was initially recorded at fair value at its issue date and re-measured at the end of the Financial Period. The resulting change in fair values was then recognised through the consolidated income statement.

Other losses during the Financial Period mainly included fair value loss of HK$20.3 million (2010: HK$7.2 million) from the Group's listed securities investments and available for sale financial assets. In the last corresponding period, a gain of approximately HK$8.3 million was recognised due to the early redemption of a loan note receivable.

Staff costs decreased to HK$34.7 million (2010: HK$57.5 million). Included in the staff costs was equity-settled share-based payments of HK$1.7 million (2010: HK$23.4 million) related to share options granted during the Financial Period.

The finance costs increased to HK$90.9 million (2010: HK$39.1 million) mainly due to the reduction in interest capitalized to development in progress. The development in progress is a right of use of a road under construction by the Group. The construction of the road was close to completion as at 30 September 2011.

BUSINESS REVIEW

Khushuut Road

The Khushuut Road is a paved roadway of approximately 311 km from our Khushuut Coal Mine stretching westward to the Yarant border (Mongolia side) and Takeshenken border (Xinjiang side) that we will be using as our main trunk for exporting coal products to the People's Republic of China. It also has an extension of approximately 30 km stretching northward from our Mine site to adjoin another roadway for our future transportation extension. This section is not the focus of our current operation.

We contracted to pave the surface of the Khushuut Road in April 2010. As reported in the last annual report, there remained a 6 km section of the road connecting immediately to the Yarant border to be completed, before the Mongolian Government would accept and approve the commissioning of the Road.

In order to obtain an approval from the Mongolian Government for formal commissioning, there must be a Technical Committee and State Committee formed to examine and inspect the Road to their satisfaction before granting the approval.

The Technical Committee shall review all the complied documents, conduct quality assurances of performed works and other technical aspects, and can request the contractors to complete the unfinished works or improve quality of the construction. It will also prepare and ensure a smooth subsequent inspection by the State Commission.

The State Commission comprising the specialists from various governmental agencies shall inspect the Road and grant commissioning according to applicable laws and regulations of Mongolia, and also based on the Technical Committee's conclusion. The Head of the State Commission shall then issue a registration number to the Road to be commissioned.

We completed the road pavement shortly after the Financial Period and had the State Commission inspected the Khushuut Road on 6 November 2011. We are awaiting the formal confirmation letter from the State Commission for the use of the Khushuut Road.

Mine Production

The coal production on-site was kept at a minimum quantity level during the Financial Period pending the commissioning approval of the Khushuut Road. A large production before the road approval would cause the coal piled up to oxidize and not be suitable for quality coal delivery purpose to our clients.

We will work with our mine contractor to gradually increase the coal production to meet our clients' needs.

Mine Infrastructure

In addition to the existing infrastructure currently on-site, work commenced on the custom bonded yard and weighbridge area to facilitate the export of coal during the Financial Period.

Coal Processing

The initial coal processing via screening of coal at the Khushuut Coal Mine was started during the Financial Period. The purpose of screening the Khushuut ROM (run of mine) coking coal is to remove as much of the parting (non-coal) materials mined with the coal as possible before it is shipped. Before screening the ash content of our ROM coking coal was upwards of 40%. After screening the ash in the ROM coal ready for export was reduced to around 27%. The benefits of this screening are less non-coal parting materials are shipped, resulting in higher coal recoveries after washing and lower transportation costs.

A small screening plant capable of handling 20 to 40 tonnes of ROM (run of mine) coal per hour was brought in as an interim screening step while a second larger capacity screening plant was being constructed on-site. When fully operational, this second screening plant will be capable of handling upwards of 200 to 300 tonnes per hour of throughput.

Customers and Sales

We currently have two customers who have agreed to purchase our coal products, depending on our production status and shipping capacity. During this Financial Period, we did not actively look for additional customers as we understood we might not be ready for commercial delivery during this period.

Subsequent to the Road commissioning and our gradual increase in production capacity, we will begin to expand our customer base. We are confident on this as we have high quality coking coal products and our site location is strategically located near the niche market of Xinjiang.

Transportation and Logistics

It is our desire to operate coal trucking and deliver operations 365 days a year and 24 hours per day. To achieve this, we have engaged a logistic company to provide coal trucking logistic management services to us. The logistic company will review the current border logistic issues including the choice of transportation company, down time resulting from unfavourable weather condition, border passing capacity, undeveloped infrastructure and facilities and the working time of border and facilities, and to provide suggested improvement solutions to us. The logistic company will also provide expert personnel to monitor our process of coal delivery.

Licences

Licences 11889X and 11890X

These two adjoining mining licences of about 525 hectares are located in Darvi Soum of Khovd Aimag. These licences are situated approximately 85 km east southeast of our Khushuut Coking Coal Project. Preliminary analysis of the coal core samples collected from these areas shows that the coal is high in ash and is not of coking coal quality, thus, not an economically viable product for export.

Mongolian authority claimed that we have not fully met the filing requirement of geological information and these licences are under temporary suspension. We are communicating with the Mongolian authority to have the suspension lifted so that we could further our work on these licences. No substantial value has been assigned to these licences and there is no material impact on our asset value and operation.

Licence 5390X

This exploration licence is in its final year of a nine year exploration period and will expire in 2012 unless it can be demonstrated to the Mongolian Government that this exploration licence has the potential to be turned into a mining licence. The licensed area covers about 1,415 hectares and is located 4 km south of the Khushuut Coking Coal Project.

We are discussing the possibility to retain this licence or turn it into a mining licence and complete additional exploration work. As this is not a licence under the Khushuut Coking Coal Project and no substantial value has been assigned to this licence, in the event that we are not able to retain this due to its expiry, it will not have any material impact on our asset value and operation.

Update of the Prohibition Law

As reported in our last annual report, we have several mining and exploration licences which may be affected by the Mining Prohibition Law, and upon our enquiry with the Mineral Resources Authority of Mongolia ("**MRAM**"), we were advised that we could operate as usual under the Minerals Law in Mongolia. We have written to our Mongolian legal adviser for an update. The adviser informed us that on 8 June 2011, the Government of Mongolia adopted Resolution #174 (the "**Resolution 174**") providing for "partially established boundaries" within which alluvial gold mining operations are prohibited under the Prohibition Law, and on 10 October 2011, the MRAM and the daily newspaper "Zuunii Medee" issue #55/251 (3941) dated 24 October 2011, released an official list of the existing licences which are covered by the "partially established boundaries" approved in Resolution 174.

Resolution 174 is an effort by the Government of Mongolia to comply with the Prohibition Law. The Mongolian legal adviser confirmed that none of our licences were within the official list. The adviser further advised that there remained the potential for other areas within Mongolia to be later designated as prohibited areas by the Government of Mongolia. They were not aware of any other list that has been issued by the Government of Mongolia.

SUBSEQUENT BUSINESS DEVELOPMENT

Support from the Local Government for Our Project

The Mongolian Government has been very supportive towards foreign investments in the mining sector and the Company has been benefiting from these government policies since we started developing the Khushuut Project years ago. For instance, as reported in the last annual report, we entered into a co-operation agreement with the Khovd Province on 7 April 2011 which we received the support from the local government where our Khushuut Mine is located.

On 27 October 2011, we entered into a co-operation agreement with Darvi Soum. The purpose of this agreement is to enhance co-operation between the parties and to provide successful implementation of our projects and investments planned by MoEnCo LLC. In return, we are required to support their vocational training and education of unemployed people, to establish a fund for local support, to provide coal needs and job opportunities for the local people.

We are also negotiating a similar co-operation agreement with Tsetseg Soum.

FINANCIAL REVIEW

1. Liquidity and Financial Resources

During the Financial Period, the Group's capital expenditure and working capital were mainly funded by a loan facility granted by the chairman of the Company. The facility is unsecured, interest charged at HK$ prime rate and repayable on or before 31 December 2012. This accounted for the increase in total borrowings during the Financial Period.

A zero coupon convertible note in the principal amount of HK$2 billion issued to Chow Tai Fook Nominee Limited was matured during the Financial Period. On 15 June 2011, the Company issued a 3-year 3% coupon convertible note in the principal amount of HK$2 billion (the "**3% CTF Convertible Note**") to fully redeem the zero coupon convertible note. The 3% CTF Convertible Note 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$2 convertible note at the holder's option at any time between the issue date and the maturity date. Interest of 3% per annum will be payable on the maturity date.

The borrowings of the Group as at 30 September 2011 comprised convertible notes and advances from a Director amounting to HK$2,794.8 million (31 March 2011: HK$2,740.6 million). The effective interest rates of these borrowings were in the range from 11.92% to 16.21%. Of the total borrowings, 14 per cent was repayable within 12 months and the rest was falling in the 1 to 3 years maturity range.

As at 30 September 2011, the cash and bank balances were HK$9.8 million (31 March 2011: HK$10.2 million).

The liquidity ratio as at 30 September 2011 was 0.17 (31 March 2011: 0.05).

The management of the Group is confident that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future as Mr. Lo, the major shareholder and chairman of the Company, has provided sufficient facilities to meet the Group's funding needs. In addition, Mr. Lo has intended not to demand the Group for repayment of such advances at least twelve months from the end of the reporting period. Besides, the Group is using its best efforts to bring the Khushuut Coal Mine into commercial production as soon as possible and it will then further improve the liquidity position of the Group.

2. Investment in Listed Securities

As at 30 September 2011, the Group's held-for-trading investments comprised of equity securities listed in Hong Kong with a fair value of HK$24.1 million (31 March 2011: HK$37.6 million).

3. Charge on Group's Assets

There were no charges on the Group's assets as at 30 September 2011 (31 March 2011: Nil).

4. Gearing Ratio

As at 30 September 2011, the gearing ratio of the Group was 0.17 (31 March 2011: 0.17) which was calculated based on the Group's total borrowings to total assets.

5. Foreign Exchange

The Group mainly operated in Hong Kong, Mongolia and Mainland China. 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, the management will monitor foreign exposure and will consider hedging significant currency exposure should the need arise.

6. Contingent Liabilities

As at 30 September 2011, the Group did not have significant contingent liabilities (31 March 2011: Nil).

OUTLOOK

It is a milestone that our most basic and important infrastructure – the Khushuut Road, has been completed. It has taken several years to be here, overcoming all challenges and hurdles in making this happen. We appreciate the effort of all staff members, our working parties and the support from the Mongolian Government, as well as the patience of our shareholders.

We are actively working with various working partners on the preparation works for coal delivery. We plan to commence delivery of our coal products as soon as possible once the approval in writing is obtained.

Initially, we will be selling a processed (via screening) coal product until a comprehensive coal processing facility is in place. The actual pricing of the coal is negotiated based on various factors including recovery from screened coal to clean coal, ash content, washing and transportation costs etc., between the customers and the Company prior to actual delivery, and the price of coal will be enhanced once the coal is fully processed.

The Mongolia Yarant border and the Xinjiang Takeshenken border are connected by the Khushuut Road, and through these borders our coal is exported to the People's Republic of China. The borders are mainly used for our coal shipment and are therefore new in operation. It is currently open for eight hours per day and five days per week. To facilitate shipment in large scale, border expansion with longer operating hours are required. We look for a twenty four hours and seven days opening. We have actively expressed our concerns to the governments of both sides and they have both indicated their support of expansion to tie in our development. In this regard, we may require to contribute and help building the border custom infrastructures to facilitate such expansion.

Our focus in the short run is to develop our Khushuut Coal Mine to its full potential and to conduct further exploration in its vicinity for sustainable expansion.

Currently, there are certain villagers and herders living in the vicinity of our Khushuut Mine site. There are approximately 140 families, with 500 to 600 people. As they have been living near the mine site, there are health and safety concerns regarding equipment operation, the movement of trucks and construction machinery around this area, as well as security issues. We have agreement with the local government to help relocating these villagers to other locations. We will submit a proposal to the local government by December this year, and will work with the government and villagers' representatives regarding the relocation. We will work with the local government as we believe it is to our mutual benefit in our mine expansion and to help improving the living condition of the local people.

We are the dominant and pioneer mining developer in the western part of Mongolia, having the local and state governmental support for our mining projects. This is partly due to the political stability and economic policies adopted by the current Mongolian Government. As disclosed in the Risk Factors section, the Parliament of Mongolia is the highest authority of state power and the legislative power is vested solely in the Parliament. It is a supreme government authority and empowered to enact and amend laws, ratify international agreements, and declare a state emergency. The last parliamentary election of Mongolia took place in June 2008, and the next parliamentary election will be held in the middle of 2012. Whether those favourable mining laws and policies in Mongolia will continue after the election is unknown at this time. Given those uncertain factors, nevertheless, we remain confident on our development and the Mongolian Government. We prepare to work with the government authorities of Mongolia at both local and state levels on all our projects in the coming future.

We will continue to look for other resources investment opportunities and strategic partners in the industry for any co-operation, and to bring value and opportunities to our shareholders.

Corporate Governance and Other Information

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the six months ended 30 September 2011 (2010: Nil).

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 September 2011, 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	Percentage of shareholding
Mr. Lo Lin Shing, Simon ("**Mr. Lo**")	Beneficial owner/Interest of a controlled corporation/Interest of spouse	1,212,788,301 *(Note)*	18.357%
Ms. Yvette Ong	Beneficial owner	1,090,000	0.016%
Mr. To Hin Tsun, Gerald	Beneficial owner	5,400,000	0.082%
Mr. Tsui Hing Chuen, William	Beneficial owner	500,000	0.008%
Mr. Lau Wai Piu	Beneficial owner	201,200	0.003%

Note:
*Among the 1,212,788,301 shares, 4,960,000 shares represent interest of Mr. Lo on an individual basis; while 1,206,078,301 shares represent interest of Golden Infinity Co., Ltd. ("**Golden Infinity**"). The balance 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	Percentage of shareholding
Mr. Lo	Interest of a controlled corporation/ Personal	81,000,000 (Note)	1.226%
Ms. Yvette Ong	Personal	5,500,000	0.083%
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. The balance of 6,000,000 shares represents interest of Mr. Lo on an individual basis.

Save as disclosed in the section headed "SHARE OPTION SCHEME", as at 30 September 2011, none of the Directors, chief executives and their respective associates had any interests in the shares, underlying shares and/or 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/OTHER PERSONS UNDER THE SFO

The register of interests in shares and short positions maintained under section 336 of the SFO showed that as at 30 September 2011, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

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

Name of shareholders	Capacity	Long position in shares/underlying shares	Short position in shares/underlying shares	Approximate percentage of the Company's total issued share capital
Mrs. Lo	Beneficial Owner/Interest of spouse	1,293,788,301 *(Note 1)*	–	19.583%
Golden Infinity	Corporate	1,281,078,301	–	19.391%
Dr. Cheng Kar Shun	Interest of a controlled corporation/Interest of spouse	394,670,000 *(Note 2)*	–	5.974%
Ms. Ip Mei Hing	Interest of a controlled corporation/Interest of spouse	394,670,000 *(Note 2)*	–	5.974%
Dragon Noble Group Limited ("**Dragon**")	Corporate	315,570,000	–	4.777%
Dato' Dr. Cheng Yu Tung	Beneficial Owner/Interest of a controlled corporation	1,225,000,000 *(Note 3)*	–	18.542%
Chow Tai Fook Nominee Limited ("**CTF**")	Corporate	1,220,000,000	–	18.467%

Notes:

1. *Mrs. Lo is the spouse of Mr. Lo and accordingly, she is deemed to be interested in 1,293,788,301 shares under the SFO.*

2. *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 315,570,000 shares held by Dragon and 79,100,000 shares are owned by Ms. Ip Mei Hing, the spouse of Dr. Cheng Kar Shun.*

3. *Dato' Dr. Cheng Yu Tung is in control of CTF. By virtue of the SFO, he is deemed to be interested in the 1,220,000,000 shares held by CTF. The 1,220,000,000 shares held by CTF represent 220,000,000 shares and 1,000,000,000 underlying shares.*

Save as disclosed above and those disclosed under "DIRECTORS' INTERESTS 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 30 September 2011.

SHARE OPTION SCHEME

Under the share option scheme adopted by the Company on 28 August 2002 (the "**Option Scheme**"), options were granted to certain Directors and employees 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:

(A) Directors

					Number of shares subject to options				
Name	Date of grant	Exercise price *HK$*	Exercise period	Vesting period	As at 1 April 2011	Granted during the period	Lapsed during the period	Exercised during the period	As at 30 September 2011
Mr. Lo	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	6,000,000	–	–	–	6,000,000
Ms. Yvette Ong	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
	01-09-2011	0.810	01-09-2011 to 31-08-2014	N/A	–	5,000,000 *(Note)*	–	–	5,000,000
Mr. To Hin Tsun, Gerald	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
Mr. Peter Pun	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
Mr. Tsui Hing Chuen, William	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
Mr. Lau Wai Piu	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
Sub-total					8,500,000	5,000,000	–	–	13,500,000

Note:
On 1 September 2011, 5,000,000 share options granted to Ms. Yvette Ong under the Option Scheme. The average closing price of the Company's shares for the five business days immediately before the date of grant was HK$0.7280. The closing price of the Company's shares on 31 August 2011 (the trading day immediately before the grant of the share options) was HK$0.8400.

(B) Employees in aggregate

Name or category of participants	Date of grant	Exercise price *HK$*	Exercise period	Vesting period	Number of shares subject to options: As at 1 April 2011	Granted during the period	Lapsed during the period	Exercised during the period	As at 30 September 2011
Employees 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
	02-02-2009	2.1340	02-02-2009 to 01-02-2012	N/A	2,250,000	–	–	–	2,250,000
	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	–	–	–	3,300,000
TOTAL					**18,550,670**	**5,000,000**	**2,500,000**	**–**	**21,050,670**

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 30 September 2011.

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 our shareholders. A good corporate governance practice, in the Board's view, can facilitate healthy growth of a company and strengthen the confidence of the 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 Securities on the Stock Exchange (the "**Listing Rules**") .

For the six-month period ended 30 September 2011, the Company has complied with the code provisions of the CG Code except the deviations as mentioned below:

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

   None of the existing non-executive Directors is appointed for a specific term. This constitutes a deviation from 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 (the "**AGM**").

   The Chairman did not attend the 2011 AGM due to another business engagement. An executive Director chaired the 2011 AGM and answered questions from shareholders. The AGM of the Company provides a channel for communication between the Board and the shareholders. A member of the audit and remuneration committee of the Company was also available to answer questions at the 2011 AGM. Other than the AGM, shareholders may also communicate with the Company through the contact information listed on the Company's website.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own Model Code for Securities Transactions by Directors (the "**Code**"), which is on terms no less exacting than those set out in the Model Code.

The Code is sent to each Director on his/her initial appointment and from time to time when the same is amended or restated.

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

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

During the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to and including the publication date of the annual results, all Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published. Legal and Compliance Department will send a reminder prior to the commencement of such period to all Directors and relevant employees.

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. Legal and Compliance Department will send a reminder prior to the commencement of such period to all Directors and relevant employees.

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

All Directors have confirmed that they have complied with the required standards set out in the Model Code and the Code throughout the six-month period ended 30 September 2011.

HUMAN RESOURCES

As at 30 September 2011, excluding site and construction workers directly employed by our contractors, the Group employed 232 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 reviewed on periodic basis. Apart from the retirement schemes, year end bonus and share options are awarded to the employees according to the performance of the Group, assessment of the individual's performance, and industry practice. Appropriate training programs are also offered for staff training and development.

AUDIT COMMITTEE

The Audit Committee has three members, all of whom are independent non-executive Directors. Mr. Lau Wai Piu is the chairman of the Audit Committee. He has appropriate professional qualifications, accounting and related financial management expertise.

The Audit Committee has reviewed the unaudited interim financial information of the Group for the six months ended 30 September 2011 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.

DIRECTORS

During this 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 21 to 44, 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 30 September 2011 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 review conclusion, we draw attention to Notes 11 and 12(b) to the interim financial information. The Group owns a number of mining concessions included in mineral properties of approximately HK$12,923 million in Western Mongolia for coal mining, four of which the Mineral Resources Authority of Mongolia have notified the Group are within the area designated on a preliminary basis, as land where mineral exploration and mining are prohibited under the Mining Prohibition Law (the "**MPL**") as well as an exploration concession of approximately HK$286 million in Western Mongolia for iron ore. According to the MPL, the affected licence holders, including the Group, are to be compensated but the details of the compensation are not currently available. If any of these mining concessions and/or exploration concession are revoked due to the MPL and the compensation received by the Group is significantly less than the carrying amounts of these concessions, the Group might incur a significant impairment loss on the related mineral properties or 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 interim financial information which indicates that as at 30 September 2011 the Group's current liabilities exceeded its current assets by approximately HK$386,729,000. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from the substantial shareholder and chairman of the Company. If the finance is not available, the Group would be unable to meet its obligations as and when they fall due. This condition along with other matters set forth in Note 1 to the interim financial information 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
28 November 2011

Condensed Consolidated Income Statement

For the six months ended 30 September 2011

	Notes	Six months ended 30 September 2011 HK$'000 (unaudited)	2010 HK$'000 (unaudited)
Revenue – coal mining	3	**–**	–
Interest income		**1,290**	273
Fair value gain on derivative component of convertible notes		**390,086**	–
Other (losses) gains	4	**(20,317)**	1,180
Staff costs		**(34,731)**	(57,479)
Depreciation		**(10,080)**	(13,222)
Other expenses		**(48,677)**	(47,921)
Finance costs	5	**(90,921)**	(39,075)
Impairment loss on amount due from an associate		**(8,132)**	–
Share of losses of associates		**(170)**	(2,317)
Profit (loss) before taxation		**178,348**	(158,561)
Income tax expense	6	**–**	–
Profit (loss) for the period	7	**178,348**	(158,561)
Earnings (loss) per share	10		
– basic (HK cents)		**2.70**	(2.60)
– diluted (HK cents)		**(1.70)**	(2.60)

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011	2010
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit (loss) for the period	**178,348**	(158,561)
Other comprehensive income (expense)		
Exchange difference arising on translation	**5,363**	(6,171)
Total comprehensive income (expense) for the period	**183,711**	(164,732)

Condensed Consolidated Statement of Financial Position

At 30 September 2011

	Notes	30 September 2011 HK$'000 (unaudited)	31 March 2011 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	11	**13,435,214**	13,250,527
Investment property	11	**108,096**	105,264
Intangible assets		**743**	1,113
Development in progress	11	**1,803,304**	1,731,667
Exploration and evaluation assets	12	**386,410**	385,912
Interests in associates		**3,369**	–
Available-for-sale financial asset		**–**	3,914
Other asset		**1,150**	1,150
Prepayments for exploration and evaluation expenditure		**22,016**	22,016
Deposits for property, plant and equipment and other long-term deposits		**89,787**	94,661
Amount due from an associate		**200,000**	200,000
		16,050,089	15,796,224
Current assets			
Other receivables, prepayments and deposits		**40,308**	53,133
Held-for-trading investments		**24,106**	37,626
Amounts due from associates		**2,264**	10,107
Cash and cash equivalents		**9,777**	10,175
		76,455	111,041
Current liabilities			
Accounts payable	13	**20,830**	37,107
Other payables and accruals		**51,327**	55,402
Convertible notes	14	**26,089**	1,996,516
Advances from a Director	17(a)	**364,938**	42,184
		463,184	2,131,209
Net current liabilities		**(386,729)**	(2,020,168)

Condensed Consolidated Statement of Financial Position

At 30 September 2011

	Notes	30 September 2011 HK$'000 (unaudited)	31 March 2011 HK$'000 (audited)
Total assets less current liabilities		**15,663,360**	13,776,056
Non-current liabilities			
Convertible notes	14	**2,403,766**	701,897
Net assets		**13,259,594**	13,074,159
Financed by:			
Capital and reserves			
Share capital	15	**132,131**	132,131
Reserves		**13,127,406**	12,941,971
Equity attributable to owners of the Company		**13,259,537**	13,074,102
Non-controlling interests		**57**	57
Total equity		**13,259,594**	13,074,159

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2011

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Share options reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 April 2010 (audited)	122,058	9,306,803	199,594	4,184,166	19,741	(33,362)	(650,079)	13,148,921	57	13,148,978
Comprehensive expense										
Loss for the period	–	–	–	–	–	–	(158,561)	(158,561)	–	(158,561)
Other comprehensive expense										
Exchange differences arising on translation	–	–	–	–	–	(6,171)	–	(6,171)	–	(6,171)
Total comprehensive expense for the period	–	–	–	–	–	(6,171)	(158,561)	(164,732)	–	(164,732)
Equity-settled share-based payments	–	–	–	–	23,415	–	–	23,415	–	23,415
Issue of shares										
– Exercise of share options	13	2,023	–	–	(650)	–	–	1,386	–	1,386
Balance at 30 September 2010 (unaudited)	122,071	9,308,826	199,594	4,184,166	42,506	(39,533)	(808,640)	13,008,990	57	13,009,047
At 1 April 2011 (audited)	**132,131**	**12,993,006**	**199,594**	**654,948**	**39,468**	**15,784**	**(960,829)**	**13,074,102**	**57**	**13,074,159**
Comprehensive income										
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**178,348**	**178,348**	**–**	**178,348**
Other comprehensive income										
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**–**	**5,363**	**–**	**5,363**	**–**	**5,363**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**5,363**	**178,348**	**183,711**	**–**	**183,711**
Equity-settled share-based payments	**–**	**–**	**–**	**–**	**1,724**	**–**	**–**	**1,724**	**–**	**1,724**
Conversion options unexercised at expiry date (Note 14)	**–**	**–**	**–**	**(654,948)**	**–**	**–**	**654,948**	**–**	**–**	**–**
Balance at 30 September 2011 (unaudited)	**132,131**	**12,993,006**	**199,594**	**–**	**41,192**	**21,147**	**(127,533)**	**13,259,537**	**57**	**13,259,594**

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011	2010
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	**(63,975)**	(107,446)
Net cash used in investing activities		
Purchase of property, plant and equipment	**(187,256)**	(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	**(1,167)**	(62,201)
Development in progress additions	**(38,397)**	(138,721)
Disposal of subsidiaries	**–**	36,129
Other investing cash flows	**(21,701)**	(45,803)
	(248,521)	(138,481)
Net cash generated from financing activities		
Proceeds received from issue of convertible notes	**–**	300,000
Short term advances from a Director	**317,300**	170,000
Repayment of short term advances from a Director	**–**	(170,000)
Other financing cash flows	**–**	(3,650)
	317,300	296,350
Net increase in cash and cash equivalents	**4,804**	50,423
Cash and cash equivalents at beginning of the year	**10,175**	121,299
Effect of foreign exchange rate changes	**(5,202)**	2,383
Cash and cash equivalents at end of the period	**9,777**	174,105

Notes to the Consolidated Financial Statements

1. BASIS OF PREPARATION

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

In preparing the condensed consolidated financial statements, the Directors have given consideration to the future liquidity of the Company and its subsidiaries (together collectively referred to as the "**Group**"). While recognising that the Group had net current liabilities of approximately HK$386,729,000 at 30 September 2011, 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 Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and chairman of the Company, has provided facilities amounting to HK$850 million with HK$491 million unutilised at the period end to meet the Group's funding needs. In additions, subsequent to the end of the reporting period, Mr. Lo has agreed not to demand the Group for repayment of such advances at least twelve months from the end of the reporting period. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

Currently, the Group's principal project, the Khushuut Coking Coal Mine, is still under trial production and did not contribute any revenue to the Group for the period ended 30 September 2011. The Group is using its best endeavours in an attempt to bring the project into commercial production as soon as possible and it will then further improve the liquidity position of the Group. However, the commencement of the project is still subject to satisfaction of certain conditions, which represents an uncertainty to the going concern of the Group.

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 consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2011.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 March 2011 were authorised for issuance and are not yet effective:

HKAS 1 (As revised in 2011)	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (As revised in 2011)	Employee Benefits[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] *Effective for annual periods beginning on or after 1 July 2012*
[2] *Effective for annual periods beginning on or after 1 January 2013*

HK(IFRIC) – Int 20 Stripping Costs in the Production Phase of a Surface Mine

This Interpretation applies to all types of natural resources that are extracted using the surfacing mining activity process. It considers when and how to account separately for the two benefits arising from the stripping activity, which are 1) the usable ore that can be used to produce inventory; and 2) improved access to further quantities of material that will be mined in future periods, as well as how to measure these benefits both initially and subsequently. The Directors are currently evaluating the impact of the adoption of this new interpretation to the financial position or result of the Group.

Except as disclosed above, the Directors anticipate that the application of these revised standards and interpretation will have no material impact on the results and financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

Based on information reported to the chief operating decision maker (i.e. the executive Directors) for the purpose of resource allocation and performance assessment, the Group's only operating segment is the coal mining business.

The segment revenue and results for the period ended 30 September 2011 are as follows:

For the six months ended 30 September 2011

	Coal mining HK$'000	Total HK$'000
Segment revenue	–	–
Segment loss	(43,731)	(43,731)
Unallocated expenses (Note)		(48,472)
Interest income		5
Fair value gain on derivative component of convertible notes		390,086
Other losses		(20,317)
Finance costs		(90,921)
Impairment loss on loans to an associate		(8,132)
Share of losses of associates		(170)
Profit before taxation		178,348

Note:
Unallocated expenses mainly included staff costs, office rental and legal and professional fees.

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

For the six months ended 30 September 2010

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

Note:
Unallocated expenses mainly included staff costs, office rental and legal and professional fees.

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

	30 September 2011 HK$'000	31 March 2011 HK$'000
Coal mining	**15,487,398**	15,254,392

4. OTHER (LOSSES) GAINS

	Six months ended 30 September	
	2011	2010
	HK$'000	HK$'000
Fair value loss from held-for-trading investments	**(13,520)**	(2,422)
Impairment loss on available-for-sale financial asset	**(6,797)**	(4,785)
Gain on early redemption of a loan note receivable	**–**	8,387
	(20,317)	1,180

5. FINANCE COSTS

	Six months ended 30 September	
	2011	2010
	HK$'000	HK$'000
Interest on borrowings wholly repayable within five years:		
Interest expense:		
– convertible notes	**118,527**	103,488
– loan note	**–**	1,263
– advances from a Director (Note)	**5,454**	1,493
Less: interest expense capitalised to development in progress	**(33,060)**	(67,169)
	90,921	39,075

Note:

The amount represents interest paid/payable to Mr. Lo for short term unsecured advances to the Group. The interest expense was charged at the prevailing prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited per annum.

6. INCOME TAX EXPENSE

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

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

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

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

7. PROFIT (LOSS) FOR THE PERIOD

Profit (loss) for the period has been arrived at after charging:

	Six months ended 30 September	
	2011	2010
	HK$'000	HK$'000
Operating lease rentals in respect of land and buildings	**9,770**	7,967
Amortisation of intangible assets	**319**	302

8. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period (2010: Nil). The Directors do not recommend the payment of an interim dividend.

9. DISPOSAL OF SUBSIDIARIES

On 1 September 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.

The net assets of the Disposal Group at the date of disposal were as follows:

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

The subsidiary disposed of during the period ended 30 September 2010 contributed to the Group's revenue and losses approximately HK$Nil and HK$8,335,000 respectively.

No tax charge or credit arose from the loss on the disposal.

10. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 September	
	2011	2010
	HK$'000	HK$'000
Profit (loss) attributable to owners of the Company as used in the calculation of basic earnings (loss) per share	**178,348**	(158,561)
Effect of dilutive potential ordinary shares:		
Fair value gain on derivative component of convertible notes	**(390,086)**	–
Interest on convertible notes	**85,852**	–
Loss attributable to owners of the Company used in the calculation of diluted loss per share	**(125,886)**	(158,561)

	Six months ended 30 September	
	2011	2010
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue for calculation of basic earnings (loss) per share	**6,606,548**	6,103,548
Effect of dilutive potential ordinary shares:		
Share options	**307**	–
Convertible notes	**785,077**	–
Weighted average number of ordinary shares in issue for calculation of diluted loss per share (Note)	**7,391,932**	6,103,548

Note:

The computation of 2010 diluted loss per share does not assume exercise of share options or the conversion of the Company's outstanding convertible notes since their exercise would result in a decrease in loss per share.

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

Property, Plant and Equipment

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

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

During the year ended 31 March 2011, MoEnCo LLC ("**MoEnCo**"), a wholly owned subsidiary of the Group, has been notified by MRAM that four mining concessions (licence no. 2913A, 4322A, 11888A and 15289A) owned by MoEnCo are within the area designated, on a preliminary basis, as land where mineral exploration and mining are prohibited under the MPL. The MRAM further informed MoEnCo on 7 April 2011 that the boundary lines of restricted areas as defined by MPL have not been finally determined and advised MoEnCo continues fulfilling its obligations under the Minerals Law of Mongolia. There was no revocation of these licences as at 30 September 2011. The management considered that even if those four licences were revoked due to the MPL, the Mongolian Government would pay a reasonable compensation to the Group. Hence, the management concludes that there is no impairment on the corresponding mineral properties, mining structures and development in progress as at 30 September 2011 amounting to approximately HK$12,923,000,000 (31 March 2011: HK$12,914,000,000), HK$409,000,000 (31 March 2011: HK$241,000,000) and HK$1,803,000,000 (31 March 2011: HK$1,732,000,000) respectively based on the estimated discounted cash flow to be generated from the mining operation on proven reserves including areas with the four mining concessions which are affected by the MPL. 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 affected mining concessions were revoked due to the MPL and the Group was paid compensation significantly less than the carrying values of those assets, the Group would incur a significant impairment loss on the corresponding mineral properties.

In addition, during the period ended 30 September 2011, the Group spent approximately HK$170,634,000 (30 September 2010: HK$45,990,000) on the development of mining structures, HK$8,031,000 (30 September 2010: HK$43,951,000) on construction in progress and HK$4,238,000 (30 September 2010: HK$7,970,000) on motor vehicles.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY AND DEVELOPMENT IN PROGRESS *(Continued)*

Investment Property

At 30 September 2011, the Group's investment property was fair valued by the external valuer by reference to market evidence of transaction prices for similar properties in the similar location and condition. As the carrying amount of the Group's investment property does not differ significantly from that which would be determined using fair values at the end of the reporting period, no fair value change has been recognised in the current period.

Development in Progress

During the year ended 31 March 2009, an agreement was entered into between the Governor's Administration Office of Khovd Province of Mongolia (the "**Governor**") and MoEnCo, a wholly owned subsidiary of the Company, regarding the right of use of a road granted by the Governor to MoEnCo subject to certain conditions. Under the terms of the agreement, MoEnCo will construct a road at its own cost from the Group's mine areas in Khushuut, Western Mongolia to the Yarant border crossing with Xinjiang, the PRC, with the construction permit granted to MoEnCo from the Ministry of Road, Transportation and Tourism of the Mongolian Government. In return, MoEnCo enjoys the right, which was granted at the date of the agreement, for the unrestricted use of the road for 30 years (the "**Approved Period**"). The road will be opened to public use subject to certain weight restrictions whereupon the Group may direct users including commercial users. The Group is also responsible for maintenance of the road during the Approved Period. The Group will use the road mainly for the purpose of transporting coal from its mine areas to its customers in the PRC. During the six months ended 30 September 2011, the Group spent approximately HK$38,576,000 (30 September 2010: HK$138,721,000) on road surface construction and capitalized interest expenses to the development in progress of approximately HK$33,060,000 (30 September 2010: HK$67,169,000). As at 30 September 2011, the road construction was substantially completed and the Group is awaiting the formal approval from the Mongolian Government on the road commissioning.

12. EXPLORATION AND EVALUATION ASSETS

	Mining and Exploration Rights (Note b) HK$'000	Others (Note c) HK$'000	Total HK$'000
At 1 April 2010	12,821,595	368,132	13,189,727
Additions	–	74,833	74,833
Transfer to property, plant and equipment (Note a)	(12,535,919)	(342,729)	(12,878,648)
At 31 March 2011	**285,676**	**100,236**	**385,912**
Additions	**–**	**498**	**498**
At 30 September 2011	**285,676**	**100,734**	**386,410**

Notes:

(a) *On 2 June 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 became demonstrable and this coal mine has moved to a development phase. As a result, its corresponding exploration and evaluation assets were transferred to property, plant and equipment as mining structures and mineral properties.*

(b) *The remaining balance of mining and exploration rights as at 30 September 2011 solely represents an exploration concession of around 2,986 hectares in Western Mongolia for ferrous resources. Such iron ore exploration concession might be affected by the MPL under the preliminary list. Zvezdametrika LLC ("**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 licences with supporting documents. After taking legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRAM's request. According to the best knowledge of the Group, there was no revocation of its licences as at 30 September 2011. The management also considered that even if the licences were revoked due to the MPL, the Mongolian Government would pay a reasonable compensation to the Group. Hence, the management concluded that there is no impairment on the corresponding exploration and evaluation assets as at 30 September 2011 amounting to 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.*

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 mining licences for two successive periods of 20 years each. The Group has renewed all exploration and mining licences before the expiry date.

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

13. ACCOUNTS PAYABLE

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

	30 September 2011 HK$'000	31 March 2011 HK$'000
Current to 30 days	**19,326**	23,643
31 to 60 days	**–**	10,441
61 to 90 days	**–**	1,087
Over 90 days	**1,504**	1,936
	20,830	37,107

14. CONVERTIBLE NOTES

On 30 April 2008, the Group issued a zero coupon convertible note (the "**Zero Coupon Convertible Note**") to Chow Tai Fook Nominee Limited ("**CTF**") at a total nominal value of HK$2 billion. It had a maturity period of three years from the issue date and could 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 entitled 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 30 April 2011 and, if it had not been converted, it would be redeemed on 30 April 2011 at par.

On 29 April 2011, the Group agreed with CTF to redeem the Zero Coupon Convertible Note by reissuance of a 3-year 3% coupon convertible note in the principal amount of HK$2 billion (the "**3% CTF Convertible Note**"). As the option of the Zero Coupon Convertible Note remained unexercised at the expiry date, the balance stated in capital reserve amounting to approximately HK$654,948,000 was released to the accumulated losses on the date of redemption. No gain or loss was recognised in the condensed consolidated income statement upon expiration of the option.

On 15 June 2011, the Company issued the 3% CTF Convertible Note to redeem the Zero Coupon Convertible Note and such transaction is considered as a non-cash transaction.

The 3% CTF Convertible Note has a maturity period of three years from the issue date to 15 June 2014 and can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$2 convertible note at the holder's option at any time between the issue date and the maturity date subject to the anti-dilutive adjustments. Interest of 3% per annum will be paid up until the settlement date.

14. CONVERTIBLE NOTES *(Continued)*

The 3% CTF Convertible Note contains two components, a liability component and a conversion option derivative. The effective interest rate of the liability component is 16.21%. The conversion option derivative is measured at fair value with changes in fair value recognised in the condensed consolidated income statement.

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

	Liability component		Derivative component		Total	
	30 September 2011 HK$'000	31 March 2011 HK$'000	**30 September 2011 HK$'000**	31 March 2011 HK$'000	**30 September 2011 HK$'000**	31 March 2011 HK$'000
At beginning of the period/year	**2,592,235**	1,850,033	**106,178**	–	**2,698,413**	1,850,033
Initial recognition	**1,426,391**	570,814	**573,609**	177,981	**2,000,000**	748,795
Interest expense	**118,527**	323,711	**–**	–	**118,527**	323,711
Redemption of the Zero Coupon Convertible Note	**(2,000,000)**	–	**–**	–	**(2,000,000)**	–
Amortization of transaction cost	**3,001**	3,001	**–**	–	**3,001**	3,001
Conversion of convertible note	**–**	(155,324)	**–**	–	**–**	(155,324)
Fair value gain on derivative component	**–**	–	**(390,086)**	(71,803)	**(390,086)**	(71,803)
At end of the period/year	**2,140,154**	2,592,235	**289,701**	106,178	**2,429,855**	2,698,413

14. CONVERTIBLE NOTES *(Continued)*

Analysed for reporting purpose as:

	30 September 2011 HK$'000	31 March 2011 HK$'000
Current liabilities (Note)	**26,089**	1,996,516
Non-current liabilities	**2,403,766**	701,897
	2,429,855	2,698,413

Note:
The amount includes coupon interest payable to the note holders within one year.

3% CTF Convertible Note

Binomial Valuation Model is used for valuation of the derivative component. The major inputs into the model were as follows:

	15 June 2011	**30 September 2011**
Stock price	HK$1.220	**HK$0.510**
Exercise price	HK$2.000	**HK$2.000**
Volatility (Note)	94%	**190%**
Dividend yield	0%	**0%**
Option life	3 years	**2.71 years**
Risk free rate	0.688%	**0.310%**

Note:
The volatility used in the model was determined with reference to the average of the comparable companies' historical volatility.

15. SHARE CAPITAL

Authorised and issued share capital

	30 September 2011 HK$'000	31 March 2011 HK$'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 1 April 2010	6,102,897,828	122,058
Issue of shares		
– Exercise of share options	3,650,000	73
– Conversion of convertible note (Note)	500,000,000	10,000
At 31 March 2011 and 30 September 2011	6,606,547,828	132,131

Note:
On 28 January 2011, the convertible note with the principal amount of HK$142,500,000 and the option to subscribe for 500,000,000 shares was exercised, of which HK$10,000,000 was credited to share capital and the balance of HK$145,324,000 was credited to the share premium account.

16. CAPITAL COMMITMENTS

As at 30 September 2011, the Group had capital commitments contracted for but not provided in the condensed consolidated financial statements for amounting to approximately HK$324,590,000 (31 March 2011: HK$370,762,000). These commitments are for the following projects:

	30 September 2011 HK$'000	31 March 2011 HK$'000
Road construction	**187,506**	240,843
Road improvement and drilling equipment transport	**36,792**	34,455
Exploration drilling	**26,290**	30,087
Water drilling	**36,826**	18,976
Rotary Breaker	**1,726**	10,374
Mine design	**484**	472
Coal processing plant design	**1,079**	1,059
Custom facility design	**894**	1,018
Power plant design	**938**	781
Other exploration related commitments	**32,415**	32,697
	324,950	370,762

17. RELATED PARTY TRANSACTIONS

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

(a) Advances from Mr. Lo

	30 September 2011 HK$'000	31 March 2011 HK$'000
Balance of advances (Note)	**364,938**	42,184

	Six months ended 30 September	
	2011 HK$'000	2010 HK$'000
Interest expense paid/payable	**5,454**	1,493

Note:
The advances are related to the facility granted from Mr. Lo as set out in Note 1. The amounts are unsecured and repayable on demand. The interest expense was charged at the prevailing prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited per annum.

(b) Interest on convertible note payable to a related party – Golden Infinity Co., Ltd.

	Six months ended 30 September	
	2011 HK$'000	2010 HK$'000
Interest expense	**5,391**	720

Mr. Lo, together with his family, has a controlling interest of this Company.

17. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management compensation

	Six months ended 30 September	
	2011	2010
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**9,157**	10,395
Share-based payments (Note)	**1,724**	19,842
Contributions to pension scheme	**30**	30
	10,911	30,267

Note:

During the period ended 30 September 2011, 5,000,000 share options were granted to the Group's key management (2010: 10,000,000 share options). Such options were immediately vested on date of grant. The fair values of the total options determined at the date of grant were using the Trinomial model.