MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

The directors (the "**Directors**") of Mongolia Energy Corporation Limited (the "**Company**") announce the condensed consolidated results of the Company and its subsidiaries (together collectively referred to as the "**Group**") for the six months ended 30 September 2012 together with the comparative figures for the corresponding period in the previous year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2012

		Six months ended 30 September	
		2012	2011
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	**7,817**	–
Cost of sales		**(190,429)**	–
Gross loss		**(182,612)**	–
Other income		**5,073**	1,290
Other gains and losses	*4*	**3,078**	(13,520)
Administrative expenses		**(87,598)**	(93,488)
Fair value gain on derivative component of convertible notes		**269,221**	390,086
Impairment loss on property, plant and equipment	*9*	**(1,410,247)**	–
Impairment loss on intangible assets	*9*	**(194,515)**	–
Impairment loss on development in progress	*9*	**(6,525)**	–
Impairment loss on available-for-sale financial asset		**–**	(6,797)
Impairment loss on amounts due from associates		**(2,080)**	(8,132)
Share of losses of associates		**–**	(170)
Finance costs	*5*	**(179,900)**	(90,921)
(Loss) profit before taxation	*7*	**(1,786,105)**	178,348
Income tax expense	*6*	**–**	–
(Loss) profit for the period		**(1,786,105)**	178,348
(Loss) earnings per share	*8*		
– basic (HK cents)		**(26.44)**	2.70
– diluted (HK cents)		**(26.44)**	(1.70)

Note: The presentation of the condensed consolidated income statement for the six months ended 30 September 2011 was changed from by nature to by function to be consistent with current period presentation.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2012

	Six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss) profit for the period	**(1,786,105)**	178,348
Other comprehensive (expense) income		
Exchange difference arising on translation	**(11,208)**	5,363
Total comprehensive (expense) income for the period	**(1,797,313)**	183,711

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2012

	Notes	30 September 2012 HK$'000 (unaudited)	31 March 2012 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	9	**8,133,676**	9,513,962
Investment property	9	**124,584**	116,566
Intangible assets	9	**1,110,909**	1,328,053
Development in progress	9	**37,252**	43,777
Exploration and evaluation assets	10	**303,803**	299,206
Interests in associates		**–**	–
Other asset		**1,150**	1,150
Prepayments for exploration and evaluation expenditure		**10,458**	10,458
Deposits for property, plant and equipment and other long-term deposits		**578**	40,889
Deferred tax assets		**7,385**	7,385
		9,729,795	11,361,446
Current assets			
Inventories		**30,537**	24,331
Trade receivables	11	**508**	5,389
Other receivables, prepayments and deposits		**26,952**	30,583
Held-for-trading investments		**22,229**	27,169
Amounts due from associates		**9,095**	9,900
Cash and cash equivalents		**22,905**	84,963
		112,226	182,335
Current liabilities			
Trade payables	12	**79,108**	57,102
Other payables and accruals		**125,739**	143,143
Convertible notes	13	**292,429**	12,310
Advances from a Director		**630,579**	479,548
Other loan	5(Note b)	**50,281**	–
		1,178,136	692,103
Net current liabilities		**(1,065,910)**	(509,768)

	Notes	30 September 2012 HK$'000 (unaudited)	31 March 2012 HK$'000 (audited)
Total assets less current liabilities		**8,663,885**	10,851,678
Non-current liabilities			
Convertible notes	*13*	**2,115,884**	2,506,364
Net assets		**6,548,001**	8,345,314
Financed by:			
Capital and reserves			
Share capital		**135,131**	135,131
Reserves		**6,412,813**	8,210,126
Equity attributable to owners of the Company		**6,547,944**	8,345,257
Non-controlling interests		**57**	57
Total equity		**6,548,001**	8,345,314

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated 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**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In preparing the condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Company and its subsidiaries (together collectively referred to as the "**Group**"). While recognizing that the Group had net current liabilities of approximately HK$1,065.9 million at 30 September 2012 and incurred a loss of approximately HK$1,786.1 million for the six months period then ended, 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 of which HK$219.4 million was unutilised as at 30 September 2012. Subsequent to 30 September 2012, Mr. Lo has extended his personal facilities up to the amount of HK$1,900 million to meet the Group's future funding needs for at least 12 months from the end of the reporting period. In addition, subsequent to 30 September 2012, Mr. Lo, also being the beneficial owner of the holder of convertible note with principal amount HK$300 million issued by the Group to Golden Infinity Co., Ltd., has agreed to extend the maturity date of the convertible note for not less than 12 months from maturity date subject to re-negotiation of certain terms.

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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2012.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA:

HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets

The application of the above amendments in the current interim period has had no material effect on the amount reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Based on information reported to the chief operating decision maker (i.e. the Executive Directors) for the purposes of resource allocation and performance assessment, the Group's only operating segment is the coal mining business. Revenue represents revenue arising on the sale of coking coal to external customers.

The segment revenue and results for the six months ended 30 September 2012 are as follows:

For the six months ended 30 September 2012

	Coal mining *HK$'000*	**Total** *HK$'000*
Segment revenue	**7,817**	**7,817**
Segment loss	**(1,842,151)**	**(1,842,151)**
Unallocated expenses *(Note)*		**(34,283)**
Other income		**10**
Other gains and losses		**3,078**
Fair value gain on derivative component of convertible notes		**269,221**
Impairment loss on amounts due from associates		**(2,080)**
Finance costs		**(179,900)**
Loss before taxation		**(1,786,105)**

Note:

Unallocated expenses mainly included employee benefits expense, office rental and legal and professional fees.

The segment revenue and results for the six months 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)
Other income		5
Other gains and losses		(13,520)
Fair value gain on derivative component of convertible notes		390,086
Impairment loss on available-for-sale financial asset		(6,797)
Impairment loss on loans to an associate		(8,132)
Share of losses of associates		(170)
Finance costs		(90,921)
Profit before taxation		178,348

Note:

Unallocated expenses mainly included employee benefits expense, office rental and legal and professional fees.

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

	30 September 2012	31 March 2012
	HK$'000	*HK$'000*
Coal mining	**9,375,377**	11,031,801

4. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Fair value loss from held-for-trading investments	**(4,940)**	(13,520)
Fair value gain from investment property	**8,018**	–
	3,078	(13,520)

5. FINANCE COSTS

	Six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years:		
Interest expense:		
– convertible notes	**166,388**	118,527
– advance from a Director *(Note a)*	**13,231**	5,454
– other loan *(Note b)*	**281**	–
Less: interest expense capitalised to development in progress	**–**	(33,060)
	179,900	90,921

Notes:

(a) The amount represents interest 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.

(b) The amount represents interest payable to a short term unsecured loan with principal amount of HK$50 million. 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. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation has been arrived at after charging:

	Six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Amortisation of intangible assets	**22,629**	319
Depreciation of property, plant and equipment	**22,138**	10,080
	44,767	10,399
Cost of inventories	**13,521**	–
Employee benefit expenses, including Directors' emoluments	**25,792**	34,731
Operating lease rentals in respect of land and buildings	**11,085**	9,770

8. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
(Loss) profit attributable to owners of the Company as used in the calculation of basic (loss) earnings per share	**(1,786,105)**	178,348
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	**(1,786,105)**	(125,886)

	Six months ended 30 September	
	2012	2011
	'000	*'000*
Number of shares		
Number of ordinary shares in issue for calculation of basic (loss) earnings per share	**6,756,548**	6,606,548
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)*	**6,756,548**	7,391,932

Note:

The computation of 2012 diluted loss per share does not assume the exercise of share options or the conversion of the Company's outstanding convertible notes since their exercise or conversion would result in a decrease in loss per share.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY, INTANGIBLE ASSETS AND DEVELOPMENT IN PROGRESS

Property, Plant and Equipment

During the six months ended 30 September 2012, the Group spent approximately HK$Nil (30 September 2011: HK$170,634,000) on the development of mining structures, HK$10,431,000 (30 September 2011: HK$8,031,000) on construction in progress and HK$51,013,000 for the purchases of trucks (30 September 2011: HK$4,238,000 on motor vehicles).

Investment Property

The fair value of the Group's investment property as at the end of the current interim period was arrived at by the external valuer by reference to market evidence of transaction prices for similar properties in the similar location and condition. An increase in fair value of investment property of HK$8,018,000 has been recognised directly in the condensed consolidated income statement for the six months ended 30 September 2012 (2011: HK$Nil).

Intangible Assets

The intangible assets consist of software and exclusive right of use of paved road. There are no significant capital expenditures spent in the intangible assets for the six months ended 30 September 2012.

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 rights, 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. The construction of the 311 km road was completed and the formal approval from the Mongolian government on road commissioning was obtained during the year ended 31 March 2012, the construction cost of HK$1,906,297,000, representing 311 km of the road construction cost, was transferred to intangible assets.

There is no additions of development in progress for the six months ended 30 September 2012. During the six months ended 30 September 2011, the Group spent approximately HK$38,576,000 on road surface construction and capitalised interest expenses to the development in progress of approximately HK$33,060,000.

Impairment loss recognised on Khushuut Mine Related Assets

At the end of the reporting period, the Group engaged an independent qualified professional valuer (the "**Independent Valuer**") who is not connected with the Group to determine the recoverable amount of its property, plant and equipment, intangible assets and development in progress related to the Khushuut mine operations (collectively referred to as "**Khushuut Related Assets**") and treated as a cash generating unit. As the new mining contractor has not yet been appointed as disclosed in Note 14, the Independent Valuer performed the valuation of Khushuut Related Assets, which using discounted cash flow analysis, based on the cost structure and the production capacity employed by the current sole mining contractor, after taking into account the temporary suspension of coal commercial production.

The recoverable amount of Khushuut Related Assets estimated by the Independent Valuer was significantly lower than their carrying value, and accordingly, an impairment loss amounting to HK$1,611,287,000 was recognised against respective assets on a pro-rata basis with reference to their carrying amount. The key assumptions for the value in use calculations relate to the estimation of the timing of recommencement of coal commercial production, the cost structure and the production capacity of the relevant contractor. The Directors were of the opinion that the chosen valuation techniques and assumptions used in the valuation are appropriate. During the six months ended 30 September 2012, impairment losses were charged HK$1,410,247,000 to property, plant and equipment, HK$194,515,000 to intangible assets and HK$6,525,000 to development in progress. The main reason for such a significant impairment loss being recognised for the six months ended 30 September 2012 is due to changes made in response to the temporary suspension of production and the decrease in the estimated selling price of coals.

Mining Prohibition Law

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 provided a list of licences that overlap with the Defined Prohibited Areas under the MPL.

As at 30 September 2012, five mining concessions (licence no. 2913A, 11888A, 11889A, 11890A and 15289A) owned by MoEnCo LLC ("**MoEnCo**"), a wholly owned subsidiary of the Company, have overlapping areas described under the MPL, where mineral exploration and mining are prohibited. The Group's legal advisers have confirmed that their interpretation of the relevant legislation is that, following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licenced area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. There was also no revocation of these licences as at 30 September 2012. The management also considers 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 further impairment, other than those set out above relating to Khushuut Related Assets including, mineral properties, mining structures, construction in progress, exclusive right of use of paved road and development in progress with carrying value of approximately HK$7,718 million, HK$280 million, HK$54 million, HK$1,111 million and HK$37 million respectively as at 30 September 2012. 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 were paid compensation significantly less than the carrying amount of the related assets, the Group would incur a significant impairment loss on the related assets.

10. EXPLORATION AND EVALUATION ASSETS

	Mining and Exploration Rights *(Note b)* *HK$'000*	**Others** *(Note c)* *HK$'000*	**Total** *HK$'000*
COST			
At 1 April 2011	285,676	100,236	385,912
Additions	–	9,004	9,004
Written off	–	(4,113)	(4,113)
Transfer to property, plant and equipment *(Note a)*	–	(91,597)	(91,597)
At 31 March 2012	**285,676**	**13,530**	**299,206**
Additions	**–**	**4,597**	**4,597**
At 30 September 2012	**285,676**	**18,127**	**303,803**

Notes:

(a) 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 balance of mining and exploration rights as at 30 September 2012 solely represents an exploration concession of around 2,986 hectares in Western Mongolia for ferrous resources. This iron ore exploration concession might be affected by the MPL under the preliminary list.

Zvezdametrika LLC ("**Z LLC**"), a subsidiary of the Company which owns the iron ore exploration concession, received a notice from the MRAM during the year ended 31 March 2010 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. The Group's legal advisers have confirmed that their interpretation of the relevant legislation is that, following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licenced area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. According to the best knowledge of the management, there was no revocation of its licences as at 30 September 2012. 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 2012 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 is revoked due to the MPL and the Group is 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).

The Group confirmed with the Ministry of Environment and Green Department of Mongolia that another 10 exploration/mining concessions are overlapping with the forest areas or water basin protection zones therefore might potentially be affected by the MPL. However, the management considers this would not have a significant financial impact to the Group.

11. TRADE RECEIVABLES

	30 September 2012 *HK$'000*	31 March 2012 *HK$'000*
Trade receivables	**508**	5,389

The Group allows a credit period of 30 days to its customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	30 September 2012 *HK$'000*	31 March 2012 *HK$'000*
Current to 30 days	**17**	5,359
31 to 60 days	**383**	26
61 to 90 days	**–**	4
Over 90 days	**108**	–
	508	5,389

12. TRADE PAYABLES

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

	30 September 2012	31 March 2012
	HK$'000	*HK$'000*
Current to 30 days	**8,318**	23,389
31 to 60 days	**16,453**	16,201
61 to 90 days	**17,502**	17,512
Over 90 days	**36,835**	–
	79,108	57,102

13. CONVERTIBLE NOTES

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

	Liability component		**Derivative component**		**Total**	
	30 September 2012	31 March 2012	**30 September 2012**	31 March 2012	**30 September 2012**	31 March 2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of the period/year	**2,233,466**	2,592,235	**285,208**	106,178	**2,518,674**	2,698,413
Initial recognition	**–**	1,388,954	**–**	611,046	**–**	2,000,000
Interest charge	**166,388**	273,389	**–**	–	**166,388**	273,389
Redemption of the Zero Coupon Convertible Note	**–**	(2,000,000)	**–**	–	**–**	(2,000,000)
Amortisation of transaction cost	**3,001**	6,001	**–**	–	**3,001**	6,001
Fair value gain on derivative component	**–**	–	**(269,221)**	(432,016)	**(269,221)**	(432,016)
Interest paid	**(10,529)**	(27,113)	**–**	–	**(10,529)**	(27,113)
At end of the period/year	**2,392,326**	2,233,466	**15,987**	285,208	**2,408,313**	2,518,674

Analysed for reporting purposes as:

	30 September 2012	31 March 2012
	HK$'000	*HK$'000*
Current liabilities *(Note)*	**292,429**	12,310
Non-current liabilities	**2,115,884**	2,506,364
	2,408,313	2,518,674

Note:

The amount represents the carrying amount of the HK$300 million 3.5% convertible note issued to Golden Infinity Co., Ltd. and coupon interest payable to the convertible note holders due within one year.

14. CONTINGENT LIABILITIES

During the period, the Company and MoEnCo, an indirectly wholly owned subsidiary, disputed the scopes of service provided by the sole mining contractor and disagreed on the amount charged under the existing mining contract and accordingly, refused to settle the contractor fees as claimed by the sole mining contractor.

On 9 October 2012, the Company received a statutory demand under the Hong Kong Companies Ordinance from the sole mining contractor for the sum of approximately HK$83 million of which approximately HK$50 million has been provided in the condensed consolidated financial statements as at 30 September 2012. Based on opinion provided by the legal counsel, the Directors considered that the payment of the remaining balance is not probable. Up to the date of this announcement, the dispute is still in progress.

Due to the unsettlement of the contractor fee, the Group expects that the sole mining contractor will terminate the Mining Agreement with the Group. The coal extraction work had been disrupted at the end of the reporting period and subsequent to the end of the reporting period, the Group has started the new contractor selection process on tenders received from alternative contractors in Mongolia for the provision of coal extraction services at the Khushuut Coal Mine.

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the six months ended 30 September 2012 (2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Our principal project is the Khushuut Coking Coal Project in Western Mongolia.

The six-month period ended 30 September 2012 (the "**Financial Period**") was a difficult period for the Group. We were impacted by the sluggish coking coal market condition in the People's Republic of China ("**China**"), the principal coal market for our coal sales. We were also in dispute with Leighton regarding its services and the charges on MoEnCo LLC ("**MoEnCo**"), an indirectly wholly-owned subsidiary, and the dispute process is still continuing as at the date of this announcement. Leighton suspended its services in September and completed the handover of the Khushuut Coal Mine to MoEnCo in October. MoEnCo is looking for a new coal extraction contractor to resume its coal extraction services.

RESULTS ANALYSIS

Revenue

The Group sold 33,800 tonnes of raw coal to generate HK$8.6 million in revenue during the Financial Period with an average selling price of HK$254.4 per tonne. For the raw coal shipped in previous financial year, the washed results failed to meet the contract specification, thus triggering downward adjustment to the contract price. The adjustment in revenue of HK$0.8 million was reflected in the Financial Period.

Cost of Sales and Gross Loss

The cost of sales was HK$190.4 million and generated a gross loss of HK$182.6 million. The cost of sales included (i) amortization and depreciation of HK$2.3 million in respect of mine related assets such as mining structures, mining properties and exclusive right of use of paved road; and (ii) the amount of HK$170.8 million being write-down of inventories to net realizable value. Cost of sales was adversely impacted by the failure to operate the mine during the Financial Period at optimum capacity.

Impairment Loss Recognised on Khushuut Mine Related Assets ("Mine Assets")

An impairment loss of HK$1.6 billion was made in this Financial Period in respect of Mine Assets. This impairment loss is non-cash in nature and will not affect our liquidity, cash flows or debt covenants or have any impact on future operations.

An impairment analysis with the assistance of an independent valuer was undertaken and updated mine life projection was prepared. The mine life projection reflected the prevailing economic situations, market conditions and best estimations on the future development of the Khushuut Coking Coal project made by the management. As the recoverable amount of the Mine Assets determined by the independent valuer was significantly lower than their carrying values, an impairment loss amounting to HK$1.6 billion was recognized against the respective assets on a pro-rata basis. The recoverable amount of Mine Assets declined as a result of a combination of an increased discount rate and changes made from previous mine life projection in response to the temporary suspension of production and the decrease in the estimated selling prices of coal.

Fair value gain on derivative component of convertible notes

At the ended of the Financial Period, there were following outstanding convertible notes (i) HK$2 billion 3-year 3% coupon convertible note; (ii) HK$300 million 3.5% convertible note and (iii) HK$466.8 million 3.5% convertible note. The derivative components of these convertible notes were initially recorded at fair value at their respective issue dates and re-measured at the end of the reporting period. The resulting changes in fair values amounting to HK$269.2 million were then recognized through the consolidated income statement (2011: HK$390.1 million).

Finance Costs

The increase in finance costs was due to the increase in interest expense on convertible notes and no capitalization of finance costs to development in progress (2011: HK$33.1 million was capitalized).

BUSINESS REVIEW

Khushuut Coking Coal Project

Khushuut coal resources

During the Financial Period, we had not conducted resources update program to our Khushuut coal deposit. Therefore, our JORC in-place resources information remain the same, i.e. approximately 141,456,000 tonnes (44,503,000 tonnes measured and 96,953,000 tonnes indicated).

Coal sales and operation

During the Financial Period, we sold 32,458 tonnes of raw coking coal to our customers in Xinjiang, China.

As at 30 September 2012, we had an inventory of approximately 177,416 tonnes of raw coking coal, approximately 135,000 tonnes of which were stocked in Xinjiang for washing process and sales to potential customers.

We experienced an unsatisfactory sales result during the Financial Period. It was mainly attributable to (i) the low sales price of the raw coking coal and small quantity sold; and (ii) the sluggish coking coal market condition in China. The low sales price and small quantity on our sales were resulted from our unsatisfactory quality of raw coal initially shipped as well as the unfavourable market condition. We were further hit by the dispute with Leighton in September which Leighton suspended its mine contractor's services on our Khushuut mine site, and subsequently demobilized the equipment and workers and handed over the mine to us in October.

The condition of the coal market in China continued to soften due to the fall on demands and the mounting of supplies of coking coal during the Financial Period. Many miners lowered their offer prices of coking coal in an attempt to stimulate sales amid sluggish demand from downstream coke and steel makers. Buyers of coking coal generally asked for greater discount on the sales prices and longer settlement periods. As many steel mills are in maintenance status, local sources said the price would likely to go down in the short run.

As previously reported, the separation of coal from undesired materials and the coal selection process are the technical issues we faced in our operation. These factors not only increase costs to our coal haulage, processing and storage, but also affect our product quality and productivity. Before setting up a washing plant in Xinjiang, and as an immediate measure, we have been co-operating with a coal trading company having a washing facility in Xinjiang to process our raw coking coal. Our coking coal stock in Xinjiang will ultimately be sent to this washing facility for process treatment and sales to potential customers. This coal trading company will blend our raw coking coal with its own coal to produce a product to meet the requirements of the potential customers. This coal trading company is also acting as our agent to sell the after-washed products to potential customers.

Apart from the washing plant project, and as part of the solutions to address coal selection issues, MoEnCo has recently placed orders to purchase a dry coal processing system to be installed in the Khushuut Mine Site. The proposed system is suitable for coal mine with restriction on the source of water supply. MoEnCo is now focusing on the foundation work for setting up the dry processing system in the Khushuut Coal Mine, and targeting to complete the installation of the system by the first quarter of 2013. The proposed system will enhance our coal quality in the coal treatment process.

We are also moving forward our Xinjiang washing plant project. The preliminary design of the wash plant was completed. It has been further amended according to the requirements of the relevant assessment authority. The equipment procurement team is in the selection process for selecting the appropriate equipment to be used for the washing plant as well as the equipment provider. We have planned to complete the construction design and budget required for the washing plant in January next year.

The site location has been selected and the site location documentation for the washing plant has been approved by The Administration Office of the Altai District (阿勒泰地區行政署). The next step is to submit the application to the Department of Land and Resources of Xinjiang Uygur Autonomous Region (新疆自治區國土廳).

Support from the local governments

Our exploration and mining operation is in Mongolia. Hence, the support from the local and central governments of Mongolia is important to us. We will endeavour to enter into co-operation agreements with local authorities and districts where we operate. The purpose of such agreement is to enhance co-operation between us and the local government and to provide successful implementation of our projects and investments planned by MoEnCo. 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.

As at the end of the Financial Period, we had three co-operation agreements with Tsetseg soum, Darvi soum and Khushuut bagh.

Community issues

As part of our corporate responsibility, we take an active part in the local community development as part of our business involvement. Pursuant to the co-operation agreement with Darvi Soum, we have financed two SME development projects: flour mill house and sewing workshop. We have also provided financial support to purchase seeds and fuel for crop harvesting.

Exploration Activities

Licences

According to the enquiry made by our Mongolian advisers, MoEnCo currently has ten mining licences and ten exploration licences in Western and Northern Mongolia, including Khushuut, Gants Mod, Olon Bulag, Govi-Altai, Bayan-Ulgii and Khuvsgul. The areas cover by the licences are approximately 335,000 hectares. Two of the mining licences (11889A and 11890A) as reported in previous financial report continue to be suspended by the Mongolian authority.

Exploration

Pursuant to our costs cutting policy in response to the current market condition, only minimal exploration works were conducted during the Financial Period.

Legal Aspects

Mining Prohibition Law

On 16 July 2009, the Parliament of Mongolia enacted the Law of Mongolia on the Prohibition of Minerals Exploration and Mining in Headwater Areas, Protected Zones for Water Reserves and Forest Lands (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.

We have instructed our Mongolian legal advisers to conduct enquiry with The Mineral Resources Authority of Mongolia and the relevant government authorities regarding the validity of our licences. We were informed that all our mining and exploration licences are valid and in effect. However, we were informed by our advisers that some of our licences have been overlapping with the watershed and forestry areas which may have the potential in future to be adopted by the Mongolian government pursuant to the MPL.

Our Khushuut coal resources and operation mainly consist of six mining licences. There is apparently no change to the boundary of the overlapping areas as previously reported as shown under the relevant governmental information, and therefore, based on the review by the management and an independent coal consultant, we believe that such overlapping will not have a material effect on our Khushuut operation. Shareholders may refer to the annual report this year for the information.

Dispute with Leighton

The dispute between the Group and Leighton arises out of, among others, the invoices amount charged by Leighton on MoEnCo and the services rendered by Leighton. As such, the Group refuses to settle the contractor's fees as claimed by Leighton.

MoEnCo received a First Notice on 10 September 2012 under the mining agreement from Leighton demanding payment of the outstanding contractor's fees together with a notice of suspension of the contractor's works at the Khushuut Coal Mine and a warning of termination of the relevant mining agreement between MoEnCo and Leighton for the Khushuut Coal Mine. According to the said notice, and as alleged by Leighton to be outstanding and due by MoEnCo, the sum demanded was in the aggregate MNT16,961,875,197 (approximately US$12,211,661).

Before the issue of the First Notice, the Company had discussed with Leighton regarding a possible settlement of the outstanding contractor's fees. After the issue of the First Notice, the Company had tried to continue conversation with Leighton but it was not accepted by Leighton.

On 9 October 2012, the Company received a statutory demand under the Hong Kong Companies Ordinance from Leighton for the sum of MNT14,798,549,342 (approximately US$10,642,610 or HK$82,504,174). Leighton alleges that this sum is payable by the Company on behalf of MoEnCo in the Company's capacity as guarantor under the Khushuut Coal Mine mining agreement. The Company has instructed legal advisers to contest the demand and to handle all other legal issues arising with Leighton in connection with the dispute, including failings on the part of Leighton to meet the scope of services provided for under the mining agreement.

As a result of the dispute, Leighton suspended its services in September, gradually demobilized its plant and equipment, dismissed its workers and completed the handover of the Khushuut Coal Mine to MoEnCo in October. The Company's own technical operation team has prepared to extend their current works for the operation of the Khushuut Coal Mine. The technical operation team currently comprises international coal mining and management experts and geologists with considerable experience in the mining industry.

In order to prepare for the change of contract miner, MoEnCo invited tenders from other contractors in Mongolia for the provision of coal extraction services at the Khushuut Coal Mine in place of Leighton. MoEnCo will select the most suitable contractor to provide coal extraction services by considering factors including its experience, expertise and the contract price tendered. The invitation for tenders was closed on 12 October 2012, and there were altogether four bidding proposals received by MoEnCo. The MoEnCo tender selection team has made an initial evaluation on the bidding proposals but considered that additional time is required to complete the assessment process. Therefore, the tender selection team has extended the evaluation period to early January 2013 to further evaluate the most suitable bidder, and/or other alternative plans.

Up to present, the outstanding sum claimed by Leighton amounts to US$14,188,322.34. Currently, there are exchange of correspondences between the legal advisers of the two sides and no court or arbitration application has been filed.

The immediate impact on the Group regarding the dispute with Leighton is the disruption of the coal extraction work and the commercial resumption of which will depend on a suitable contractor being identified, or other feasible plan being implemented. Nevertheless, we are still continuing to perform blasting and extraction work by our own team, though in a smaller scale to provide domestic coal for the local people for the coming winter.

FINANCIAL REVIEW

1. Liquidity and Financial Resources

During the Financial Period, the Group's capital expenditure and working capital were mainly funded by short term loans granted by Mr. Lo, chairman of the Company.

The borrowings of the Group as at 30 September 2012 comprised convertible notes and advances from a Director amounting to HK$3,089.2 million (31 March 2012: HK$2,998.2 million). The effective interest rates of these borrowings were in the range from 5% to 16.21%. Of the total borrowings, 31.5% of the total borrowings (31 March 2012: 16.4%) was repayable within 12 months and the rest was repayable within 2 years.

At the end of the Financial Period, the cash and bank balances were HK$22.9 million (31 March 2012: HK$85.0 million).

The liquidity ratio as at 30 September 2012 was 0.1 (31 March 2012: 0.26).

The Group incurred a loss for the Financial Period of HK$1,786 million (2011: Profit HK$178.3 million), primarily due to significant costs associated with the start up and operation of Kuhshuut Coking Coal Project. As at 30 September 2012, the Group's current liabilities exceeded its current assets by approximately HK$1,065.9 million (31 March 2012: HK$509.8 million). The Group's liquidity position continues to decline as compared to previous financial year. The Group has initiated measures to reduce costs and is currently exploring various alternatives to address our liquidity issues. These measures and alternatives include: (i) reducing the cost of various inputs and services by renegotiating the terms of supply and service agreements; (ii) raising additional capital, either from new or existing investors (iii) arranging new financial support from existing lenders; and (iv) others such as disposal of non-core assets. However there can be no assurance that the Company will be successful in achieving any of these objectives or, if successfully implemented, that these initiatives will be sufficient to address our liquidity issues. If the Company is unable to seek new funding, or is unable to generate sufficient liquidity from its operations to satisfy its obligations, it may have a material adverse effect on our liquidity and may result in our inability to continue as a going concern.

2. Investment in Listed Securities

As at 30 September 2012, the Group's held-for-trading comprised of equity securities listed in Hong Kong with a fair value of HK$22.2 million (31 March 2012: HK$27.2 million).

3. Charge on Group's Assets

There was no charge on the Group's assets as at 30 September 2012 (31 March 2012: Nil).

4. Gearing Ratio

As at 30 September 2012, the gearing ratio of the Group was 0.31 (31 March 2012: 0.26) which was calculated based on the Group's total borrowings to total assets. The increase was mainly due to the shrinkage of total assets during the Financial Period because of the impairment loss recognized on Khushuut mine related assets.

5. Foreign Exchange

The Group mainly operates 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 Mongolian Tugrik. The Group does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure and will consider hedging significant currency exposure should the need arise.

6. Contingent Liabilities

The details of the Group's contingent liabilities as at 30 September 2012 are disclosed in Note 14 to the condensed consolidated financial statements.

OUTLOOK

Although we have announced commencement of our commercial production early this year, we continue to be hit by both internal and external factors that slowing down our production process.

Internally, coal processing is the technical issues faced by us in operation, and we have taken measures to address these issues seriously. We are working with a Xinjiang coal trading company to provide coal washing facilities to us, and this company is also acting as our sales agent to procure potential customers. We have undergone our on-site laboratory upgrade to facilitate our future ramping of coal production. Apart from the washing plant project in Xinjiang, we have recently placed orders to purchase a dry coal processing system to be installed in the Khushuut Mine Site. The proposed system is suitable for coal mine with restriction on the source of water supply. We are currently focusing on the foundation work for setting up the dry processing system and targeting to complete the installation of the system by the first quarter next year.

Externally, the China economy is slowing and so is its steel industry. That has sent the price and demand of coal used for steelmaking down to a certain degree. Potential buyers of coal are more conservative on price and require greater discount and longer settlement period. This is one of the reasons that we had a disappointing coal sales result for this Financial Period.

The dispute with Leighton has prompted us to look for replacement contract miner to perform coal extraction services for our Khushuut Coal Mine. We have already invited bidders for the provision of the extraction services but our selection team requires additional time to complete the assessment process. Our commercial coal extraction activity will resume upon successful selection of coal extraction contractor or other feasible plan being implemented.

Despite the challenges, we believe our niche proximity to the Xinjiang market and the type of our coking coal are still providing us a favourable driver for moving forward. We will implement our operation planning prudently in response to the market condition.

HUMAN RESOURCES

As at 30 September 2012, the Group employed 296 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.

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 2012.

CORPORATE GOVERNANCE

The board of Directors (the "**Board**") recognises the importance of maintaining a high standard of corporate governance to protect and enhance the benefits of shareholders and their responsibilities to maintain the interest of the shareholders and to enhance their values. They also believe a good corporate governance practice can facilitate a company in rapid growth under a healthy governance structure and strengthen the confidence of shareholders and investors.

During the period ended 30 September 2012, the Company had applied the principles of code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), 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 provisions A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee.

    The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by both the potential Director and the Board as to suitability for the role.

iii. 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 2012 AGM due to another business engagement. An executive Director chaired the 2012 AGM and answered questions from shareholders. The AGM of the Company provided 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 2012 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 for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (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. The Company Secretary and 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. The Company Secretary and 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 2012.

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 2012 in conjunction with Deloitte Touche Tohmatsu ("**Deloitte**"), the Company's independent auditor. Such review does not constitute an audit on the basis of review conducted by Deloitte. The review report issued by Deloitte will be set out in the interim report of the Company.

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

Hong Kong, 26 November 2012

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