MONGOLIA ENERGY CORPORATION LIMITED

蒙古能源有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

The directors (the "**Directors**") of Mongolia Energy Corporation Limited (the "**Company**") announce the condensed consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 September 2011 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 2011

		Six months ended 30 September	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
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	8		
— basic *(HK cents)*		**2.70**	(2.60)
— diluted *(HK cents)*		**(1.70)**	(2.60)

* *For identification purpose only*

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*
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$'000	31 March 2011 HK$'000
Non-current assets			
Property, plant and equipment	9	**13,435,214**	13,250,527
Investment property	9	**108,096**	105,264
Intangible assets		**743**	1,113
Development in progress	9	**1,803,304**	1,731,667
Exploration and evaluation assets	10	**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	11	**20,830**	37,107
Other payables and accruals		**51,327**	55,402
Convertible notes	12	**26,089**	1,996,516
Advances from a Director		**364,938**	42,184
		463,184	2,131,209
Net current liabilities		**(386,729)**	(2,020,168)
Total assets less current liabilities		**15,663,360**	13,776,056
Non-current liabilities			
Convertible notes	12	**2,403,766**	701,897
Net assets		**13,259,594**	13,074,159
Financed by:			
Capital and reserves			
Share capital		**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

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 lease 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.

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.

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	Total
	HK$'000	*HK$'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	31 March 2011
	HK$'000	*HK$'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. 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 the 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 the 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 earning (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.

9. 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 licenses that overlap the Defined Prohibited Areas will be terminated within five months following the enactment of the law.

The MPL further states that affected license holders shall be compensated but details as to how the compensation is determined 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 (license 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 licenses as at 30 September

2011. The management considered that even if those four licenses 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.

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 LLC, a wholly owned subsidiary of the Company, regarding the right of use of a road granted by the Governor to MoEnCo LLC subject to certain conditions. Under the terms of the agreement, MoEnCo LLC 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 People Republic of China ("**the PRC**"), with the construction permit granted to MoEnCo LLC from the Ministry of Road, Transportation and Tourism of the Mongolian Government. In return, MoEnCo LLC 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.

10. 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 licenses with supporting documents. After taking legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRAM's request. According to the best knowledge of the Group, there was no revocation of its licenses as at 30 September 2011. The management also considered that even if the licenses were revoked due to the MPL, the Mongolian Government would pay a reasonable compensation to the Group. Hence, the management concluded that there is no impairment on the corresponding exploration and evaluation assets as at 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 licenses 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).

11. 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	31 March 2011
	HK$'000	*HK$'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

12. 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.

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	31 March 2011	**30 September 2011**	31 March 2011	**30 September 2011**	31 March 2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'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

Analysed for reporting purposes 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.

INTERIM DIVIDEND

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

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 were 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 were 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 were 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) material 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 material is 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 have currently 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 licenses 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 license 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 license has the potential to be turned into a mining license. 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 turning 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 are within the official list. The adviser further advised that there remains 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 year 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 additions, 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: 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, 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 relocate these villagers to other locations. We will be submitting 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 Mongolia 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 in our development and on the Mongolian Government. We prepare to work with the governmental authorities of Mongolia in 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.

RISK FACTORS FACING US

The Group's business may face with certain risk factors from time to time. Apart from the updated risk factor below, please refer to the latest annual report for the relevant information.

Political Stability

The Parliament of Mongolia is the highest authority of state power and the legislative power is vested solely in the Parliament. As a supreme government authority, the Parliament is empowered to enact and amend laws, ratify international agreements, and declare a state emergency.

Specifically, the Parliament may consider on its initiative any issue pertaining to domestic and foreign policies of the State, and retains within its exclusive power, including but not limited to

(i) enact laws, make amendments to them;

(ii) define the State financial, credit, tax and monetary policies;

(iii) lay down guidelines for the country's economic and social development;

(iv) approve the Government's program of action, the state budget and the report on its execution; and

(v) supervise the implementation of laws and other decisions of the Parliament.

The Parliament meets semi-annually. Parliament members elect a chairman and vice chairman who each serves a 4-year term. Parliament members are elected by district for a 4-year term.

The Mongolian Parliament currently adopted a policy to welcome international investors invest and develop its mining sector, and have favourable policies on mining developers. There is no guarantee that the Parliament will not change its policies or to adopt a stringent control on the mining sectors when different political party dominants the seats in the Parliament after each and every election that takes place every four years.

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.

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

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 (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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 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 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 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. 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.

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. 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, 28 November 2011

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