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MONGOLIA ENERGY CORPORATION LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 276)

**SUBSCRIPTION FOR HK\$2,000,000,000 3% COUPON CONVERTIBLE NOTE
DUE 2014**

On 12 May 2011 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Subscriber agreed to subscribe for the Note in the principal amount of HK\$2,000,000,000 at the subscription price of HK\$2,000,000,000 which proceeds will be used by the Company to redeem the 2008 Note in full.

The Subscription is conditional upon satisfaction of the Conditions Precedent as set out under the paragraph headed “The Subscription Agreement - Conditions Precedent” below.

Assuming the conversion rights to the Note are exercised in full at the initial Conversion Price, a total of 1,000,000,000 Conversion Shares will be allotted and issued, representing approximately 15.14% of the entire issued share capital of the Company as at the date of this announcement and approximately 13.15% of the entire issued share capital of the Company as enlarged by the issue of the Conversion Shares.

The Conversion Shares will be allotted and issued pursuant to the General Mandate. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

No application will be made for listing of, or permission to deal in, the Note.

The Company refers to its announcements dated 1 February 2008 and 29 April 2011 respectively. Pursuant to the 2008 Note, the Company is required to redeem the 2008 Note on 30 April 2011. By a letter issued by the Subscriber to the Company dated 29 April 2011, the Subscriber has consented to extend the day of repayment of the 2008 Note from 30 April 2011 to 15 June 2011. As mentioned in the Company’s announcement dated 29 April 2011, the purpose for the extension of the date of repayment of the 2008 Note is to provide additional time for the Company and the Subscriber to reach a mutually beneficial agreement on any amendment to the terms and conditions attached to the 2008 Note or other alternative arrangement.

On 12 May 2011 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Subscriber agreed to subscribe for the Note in the principal amount of HK\$2,000,000,000 at the subscription price of HK\$2,000,000,000 which proceeds will be used by the Company to redeem the 2008 Note in full.

THE SUBSCRIPTION AGREEMENT

Date : 12 May 2011 (after trading hours)

Parties

Issuer : The Company

Subscriber : Chow Tai Fook Nominee Limited, a company incorporated under the laws of Hong Kong with limited liability, an Independent Third Party

Subject matter

Pursuant to the Subscription Agreement, the Company as issuer conditionally agreed to issue, and the Subscriber as subscriber conditionally agreed to subscribe for, the Note at the subscription price of HK\$2,000,000,000.

Conditions precedent

The obligations of the parties to the Subscription Agreement to effect Completion shall be conditional upon:-

- (a) the Listing Committee of the Stock Exchange having granted approval for the listing of, and permission to deal in, the Conversion Shares;
- (b) the Stock Exchange having approved (either unconditionally or subject only to conditions to which the Company and the Subscriber do not reasonably object) the issue of the Note, or the Company not having received any objection from the Stock Exchange to the issue of the Note; and
- (c) all necessary consents, approvals (or waivers), authorisation, permission or exemption from any third parties, including but not limited to government or regulatory authorities, having been obtained by the parties to the Subscription Agreement for the completion of the transactions contemplated under the Subscription Agreement.

All the Conditions Precedent are not waivable. If the Conditions Precedent are not fulfilled by the Long Stop Date, the Subscription Agreement shall lapse and become null and void and the parties to the Subscription Agreement shall forthwith be released from all their respective obligations under the Subscription Agreement, save for any liability arising out of any antecedent breaches thereof.

Completion

Subject to the fulfillment of the Conditions Precedent, Completion shall take place on the Completion Date.

Rescission

If any of the following event occurs at any time prior to 9:30 a.m. on the Completion Date, the Subscriber may, by giving a written notice to the Company, rescind the Subscription Agreement:-

- (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Subscriber materially and adversely affect the business or the financial position of the Group as a whole; or

- (b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the Subscription Agreement, of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Subscriber, materially and adversely affect the business or the financial position of the Group as a whole.

Upon the giving of such notice by the Subscriber, all obligations of the Subscriber under the Subscription Agreement shall cease and determine and no party to the Subscription Agreement shall have any claim against the other in respect of any matter or thing arising out of or in connection with the Subscription Agreement (save for any liability arising out of any antecedent breaches of the Subscription Agreement).

Others

In the event that immediately after the exercise of any conversion rights under the Note, an obligation to make a general offer in respect of the securities of the Company under the Takeovers Code is triggered, the Subscriber has agreed and undertaken to the Company that it shall forthwith comply with all the relevant provisions under the Takeovers Code.

The Subscriber has further agreed and undertaken to the Company that it will not exercise any conversion rights under the Note if immediately following such exercise there will be insufficient public float for the Shares (as required under the Listing Rules).

PRINCIPAL TERMS OF THE NOTE

The Note

HK\$2,000,000,000 3% convertible note due 2014

Maturity Date

The Company shall redeem the outstanding principal amount of the Note on Maturity Date, i.e. the third anniversary of the date of issue of the Note (or such other date as consented by the Noteholder).

Interest

Interest on the Note shall be calculated at the rate of 3% per annum on the principal amount from time to time outstanding and shall be payable on the Maturity Date.

Denomination for the conversion

With a minimum principal amount of HK\$10,000,000 and the multiples thereof (save that if at any time the outstanding principal amount of the Note is less than HK\$10,000,000, the whole (but not part only) of the outstanding principal amount of the Note may be converted).

Transferability

The Note are freely transferable, in whole or in part (in authorised denomination of HK\$10,000,000 or its multiples) of its outstanding principal amount, to any person, subject to the Listing Rules, all applicable laws and regulations.

Conversion rights

Noteholder shall have the right to convert on any Business Day during the period commencing from and including the Business Day immediately after the date of issue of the Note up to and including the Business Day immediately prior to the Maturity Date, the whole or any part of the outstanding principal amount of the Note into Shares at the Conversion Price (subject to adjustments).

Conversion Price

The initial Conversion Price is HK\$2.00 per Conversion Share (subject to adjustments in certain events, including, among others, share consolidation, share subdivision, capitalisation issues, capital distribution, right issues of Shares, or options (other than share options of the Company under its share option scheme) or warrants or other rights over Shares and other equity or equity derivatives issues).

Conversion Shares

Assuming the conversion rights to the Note are exercised in full at the initial Conversion Price, a total of 1,000,000,000 Conversion Shares will be allotted and issued, representing approximately 15.14% of the entire issued share capital of the Company as at the date of this announcement and approximately 13.15% of the entire issued share capital of the Company as enlarged by the issue of the Conversion Shares.

The Conversion Shares will be allotted and issued pursuant to the General Mandate. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Ranking

The Conversion Shares when issue will rank pari passu in all respects with all other Shares existing at the date of exercise of the conversion rights and be entitled to all dividends and other distributions the record date for which falls on a date on or after the date of exercise of the conversion rights.

Redemption and repurchase

The Company may at any time prior to the Maturity Date, by giving not less ten (10) Business Days' prior written notice to the Noteholder, repay the whole or any part of the outstanding principal amount of the Note together with all interest accrued thereon.

The Company or any of its subsidiaries may at any time and from time to time purchase the Note or any part thereof at any price as may be agreed between the Company or such subsidiary and the Noteholder. The Note or any part thereof so purchased shall forthwith be cancelled by the Company.

Status of the Note

The obligations of the Company arising under the Note constitute general, unconditional, unsecured, unsubordinated obligations of the Company and rank, and shall rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable laws. No application will be made for a listing of the Note on any stock exchange.

Voting rights

The Noteholder shall not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of its being a holder of the Note.

CONVERSION PRICE

The initial Conversion Price of HK\$2.00 per Conversion Share represents:

- (a) a premium of approximately 12.36% over the average of the closing price of HK\$1.78 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the date of the Subscription Agreement;
- (b) a premium of approximately 16.28% over the average of the closing price of HK\$1.72 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the date of the Subscription Agreement;
- (c) a premium of 18.34% over the closing price of HK\$1.69 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; and
- (d) a discount of approximately 7.41% to the consolidated net assets value of the Company attributable to the Shareholders of approximately HK\$2.16 per Share as at 31 March 2010 (based on the audited consolidated net assets of the Company attributable to the Shareholders of approximately HK\$13,148,978,000 and 6,102,897,828 Shares in issue as at 31 March 2010).

The initial Conversion Price was determined after arm's length negotiation between the Company and the Subscriber with reference to the prevailing market price of the Shares.

USE OF PROCEEDS

Upon Completion, the Company will issue the Note in the principal amount of HK\$2,000,000,000 to the Subscriber and the proceeds from the issue of the Note will be used by the Company to redeem the 2008 Note in full.

REASONS FOR AND BENEFIT OF THE ISSUE OF THE NOTE

The Company is an energy and resources developer. The Group is currently focusing on the development of its initial coking coal mining project in Khushuut, Khovd Province, western Mongolia.

The proceeds of the Note will be used by the Company to fully repay the outstanding principal amount of the 2008 Note.

The initial Conversion Price was determined after arm's length negotiation between the Company and the Subscriber with reference to the prevailing market price of the Shares. The Directors also consider that the Subscription would allow the Group to retain funds as general working capital and represent an opportunity to enlarge the equity base of the Company. Based on the above, the Directors consider that the terms of the Subscription Agreement are fair and reasonable and are in the interest of the Company and its Shareholders as a whole.

INFORMATION OF THE SUBSCRIBER

The Subscriber is a private company incorporated under the laws of Hong Kong with limited liability and an Independent Third Party. Its principal business is investment holding.

EFFECT ON SHAREHOLDING STRUCTURE

As at the date of this announcement, there are outstanding (i) the GI Convertible Note issued to Golden Infinity; (ii) the SF Convertible Note issued to Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited; and (iii) the share options granted by the Company under its share option scheme to the directors and employees of the Group to subscribe for an aggregate of 18,050,670 Shares. Save as disclosed above, as at the date of this announcement, there are no other outstanding options, warrants, derivatives, or other securities which carry rights to subscribe for or be converted into Shares. There may also fall to be issued up to a maximum of 100,000,000 new Shares to Mr. Liu Cheng Lin following completion of the acquisition which was the subject of the circular of the Company dated 31 October 2008.

The existing shareholding structure of the Company based on the publicly available information and the effect on the shareholding structure of the Company upon full conversion of the Note are set out as below:

Shareholding Structure of MEC (as at 12 May 2011)

Shareholders	Existing shareholdings		Scenario (A)		Scenario (B)	
	Number of Shares	% (approximately)	Number of Shares	% (approximately)	Number of Shares	% (approximately)
Golden Infinity and its associates	1,202,788,301	18.21	1,202,788,301	15.81	1,283,788,301	16.18
Subscriber and its associates (Note 1)	225,000,000	3.41	1,225,000,000	16.10	1,225,000,000	15.43
Dragon Noble Group Limited and its associates (Note 2)	394,670,000	5.97	394,670,000	5.19	394,670,000	4.97
	1,822,458,301	27.59	2,822,458,301	37.10	2,903,458,301	36.58
Puraway Holdings Limited and its associates (Note 3)	628,757,500	9.52	628,757,500	8.27	728,757,500	9.18
Sculptor Finance (MD) Ireland Limited	—	0.00	—	0.00	91,424,117	1.15
Sculptor Finance (AS) Ireland Limited	—	0.00	—	0.00	41,833,529	0.53
Sculptor Finance (SI) Ireland Limited	—	0.00	—	0.00	4,036,470	0.05
	—	0.00	—	0.00	137,294,116	1.73
Directors						
Other directors of the Group (Note 4)	7,283,200	0.11	7,283,200	0.10	10,283,349	0.13
Other public Shareholders	4,148,048,827	62.78	4,148,048,827	54.53	4,157,099,348	52.38
Total	6,606,547,828	100.00	7,606,547,828	100.00	7,936,892,614	100.00

Scenarios

- (A) immediately after full conversion of the Note at the initial conversion price of HK\$2.00 per Share;
- (B) immediately after full conversion of the Note at the initial conversion price of HK\$2.00 per Share, the GI Convertible Note at the initial conversion price of HK\$4.0 per Share, the SF Convertible Note at the initial conversion price of HK\$3.4 per Share, exercise of all the existing outstanding share options of the Company granted pursuant to the Company's share option scheme and issue of 100,000,000 new Shares (being the maximum number of Shares that may be issued to Mr. Liu Cheng Lin following completion of the acquisition which was the subject of the circular of the Company dated 31 October 2008)

Notes:

1. The Subscriber is a company controlled by Dato' Dr. Cheng Yu Tung.
2. Dragon Noble Group Limited is a company controlled by Dr. Cheng Kar Shun.
3. Puraway Holdings Limited is a company wholly-owned by Mr. Liu Cheng Lin.
4. Other directors of the Group, other than Mr. Lo Lin Shing, Simon and his associates.

FUND RAISING EXERCISE IN THE 12 MONTHS IMMEDIATELY PRECEDING THE DATE OF THIS ANNOUNCEMENT

Date of announcement	Event	Net proceeds	Intended use of the net proceeds as stated in the announcement	Actual use of the net proceeds
3 November 2010	Issue of the SF Convertible Note by the Company	HK\$452.3 million	The net proceeds were intended to be used for the Khushuut coking coal project and the general working capital of the Group, including any possible future acquisitions	HK\$314 million had been used in the Khushuut coking coal project and HK\$138.3 million had been used in general working capital of the Group

Save as disclosed above, the Company has not undertaken any equity fund raising exercise in the 12 months immediately preceding the date of this announcement.

GENERAL

The Conversion Shares will be allotted and issued pursuant to the General Mandate. As at the date of this announcement, a maximum number of 1,083,415,449 new Shares may be allotted and issued under the General Mandate, after deducting 137,294,116 new Shares that may fall to be issued upon exercise of the conversion rights under the SF Convertible Note.

Shareholders and potential investors should note that the Subscription Agreement is subject to the fulfillment of the Conditions Precedent and they are reminded to exercise caution when dealing in the Shares as the issue of the Note may or may not proceed.

ADJUSTMENT TO THE CONVERSION PRICE UNDER THE SF CONVERTIBLE NOTE

As at the date of this announcement, the Company has the outstanding SF Convertible Note in the aggregate principal amount of HK\$466,800,000. Pursuant to the terms of the SF Convertible Note, the conversion price of the SF Convertible Note will have to be adjusted as a result of the issue of the Note. Further announcement in respect of such adjustments will be made by the Company as and when appropriate.

DEFINITIONS

The following terms are used in this announcement with the meanings set opposite them:

“2008 Note”	the HK\$2,000,000,000 zero coupon convertible note due on 30 April 2011 (as extended to 15 June 2011) issued by the Company to the Subscriber dated 30 April 2008, the entire principal amount of which remains outstanding as at the date of this announcement
“Business Day”	a day (excluding Saturday and any day on which a tropical cyclone warning no.8 or above or a “black” rainstorm warning is hoisted or remains hoisted or in effect between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
“Company”	Mongolia Energy Corporation Limited (stock code: 276), a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion Date”	the third Business Days after fulfillment of the Conditions Precedent or such other date as may be agreed between the parties to the Subscription Agreement
“Conditions Precedent”	conditions precedent to the Subscription Agreement as set out in the paragraph headed “The Subscription Agreement - Conditions Precedent” above
“connected person(s)”	has the meaning as ascribed thereto in the Listing Rules
“Conversion Price”	the initial conversion price of HK\$2.00 per Conversion Share (subject to adjustment as set out in the Note, from time to time, if any)
“Conversion Share(s)”	the new Share(s) to be issued by the Company upon exercise of the conversion rights attaching to the Note by the Noteholder, or otherwise pursuant to the Note
“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted by the Shareholders to the Directors at the annual general meeting of the Company held on 30 August 2010 to allot and issue up to 1,220,709,565 new Shares

“GI Convertible Note”	3.5% convertible note due 2013 issued by the Company to Golden Infinity, the outstanding principal amount of which is HK\$300,000,000 as at the date of this announcement
“Golden Infinity”	Golden Infinity Co Ltd., a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Mr. Lo Lin Shing, Simon, an executive Director and the chairman of the Company
“Group”	the Company and its subsidiaries
“Independent Third Party(ies)”	independent third party(ies) and its/their ultimate beneficial owners who, to the best of the Director’s knowledge and information and having made all reasonable enquiries, is/are not connected person(s) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 June 2011 or such other date as the parties to the Subscription Agreement may agree in writing
“Maturity Date”	third anniversary of the date of issue of the Note (or such other date as consented by the Noteholder)
“Note”	the 3% convertible note in the principal amount of HK\$2,000,000,000 to be issued by the Company to the Subscriber pursuant to the terms of the Subscription Agreement
“Noteholder”	the holder of the Note
“SF Convertible Note”	3.5% convertible notes due 11 November 2013 issued by the Company to three subscribers on 12 November 2010, the aggregate outstanding principal amount of which is HK\$466,800,000 as at the date of this announcement
“Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Chow Tai Fook Nominee Limited, a company incorporated under the laws of Hong Kong with limited liability, an Independent Third Party
“Subscription”	the subscription for the Note pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the conditional agreement dated 12 May 2011 entered into between the Company and the Subscriber pursuant to which the Company has agreed to issue, and the Subscriber has agreed to subscribe for, the Note

“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“HK”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

By Order of the Board
Mongolia Energy Corporation Limited
Tang Chi Kei
Company Secretary

Hong Kong, 12 May 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.