



## **MONGOLIA ENERGY CORPORATION LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 276)

### **MEC ACQUIRES AN INTEREST AND CONTROL OF 487,509 HECTARES OF OIL & GAS CONCESSIONS IN WESTERN MONGOLIA & MEC AND CNPC DAQING PETROLEUM (中國石油大慶石油管理局) COMMENCE CO-OPERATION RELATING TO OILFIELD PROJECTS IN MONGOLIA**

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

#### **MEC'S ENTRY INTO THE DOCUMENTS**

The Company (“**MEC**”) is pleased to announce that, on December 12, 2007, MEC entered into (1) an Oil and Gas Agreement (“**Agreement**”) with Mr. Liu Cheng Lin (“**Mr. Liu**”) in Beijing, PRC and (2) a Memorandum of Co-operation (“**Co-Operation Memorandum**”) with 中國石油大慶石油管理局 (“**CNPC Daqing Petroleum**”) in Daqing, PRC.

#### **SUMMARY OF THE AGREEMENT**

Under the Agreement, Mr. Liu agrees to transfer to MEC, 20% of the beneficial interests and the entire control of 487,509 hectares of oil and gas exploration concessions in western Mongolia (the “**Concessions**”). Pending such transfer, MEC is provided with the interests and control of the Concessions as detailed below.

#### **SUMMARY OF THE CO-OPERATION MEMORANDUM**

Under the Co-Operation Memorandum, MEC and CNPC Daqing Petroleum agree to co-operate in exploration and development of the Concessions (the “**Project**”), including with the principal scope to evaluate the oil deposits (including technical and economic evaluation), feasibility study, formulation of the solution for exploration and development, exploration of the geology, petroleum engineering and technology services and surface construction of the oilfield, at the costs of MEC. After exploration, if and when the Project reaches the development stage, MEC and CNPC Daqing Petroleum will discuss further co-operation relating to the development of the oilfield under the Project, including co-investments into the Project owned by MEC.

For the avoidance of doubt, in preliminary discussions between MEC and CNPC Daqing Petroleum, the parties believe that there is prospect for oil and gas deposits in the Concession areas and hence the parties agreed to enter the Co-Operation Memorandum.

### **FURTHER CO-OPERATION**

The Co-Operation Memorandum is not limited to the Project. In fact, under the Co-Operation Memorandum, MEC and CNPC Daqing Petroleum agreed to co-operate on other oil and gas exploration and development projects in Mongolia, including on bidding for new projects in Mongolia. In this connection, MEC shall be responsible for Mongolia matters and related bidding costs incurred. Thus, the Co-Operation Memorandum represents the initial step relating to the commencement of co-operation between MEC and CNPC Daqing Petroleum.

To further the co-operation with CNPC Daqing Petroleum, MEC has appointed Dr. Cai Yi as senior technical adviser of MEC to work with CNPC Daqing Petroleum. Dr. Cai Yi has a doctoral degree in general survey in mining and exploration from the China University of Geosciences. Dr. Cai Yi has 17 years, of relevant research experience in the oil industry. Dr. Cai has completed and participated in a number of oil and gas research projects in China including at the State, ministerial and department levels.

### **THE DETAILS OF THE OIL & GAS AGREEMENT**

Under the Agreement, Mr. Liu, as beneficial owner of the Concessions, held through a holding company (the “**Holding Company**”) incorporated in Mongolia and wholly owned by Mr. Liu, agreed to transfer 20% of the beneficial ownership of the Concessions to MEC within 60 days.

Pending such transfer Mr. Liu and MEC have agreed to take the following steps to allow MEC to control the Concessions: (1) Mr. Liu agrees to provide MEC with 100% control over the Concessions including all rights, powers and privileges to deal with the Concessions absolutely in MEC’s own name which Mr. Liu agrees to confirm and ratify in all respects absolutely, as necessary, and (2) MEC agrees with Mr. Liu, to either through itself, or its nominee, provide the necessary funds and expertise in relation to the development of the Concessions (inclusive of exploration expenses). Thus, MEC acquires an interest and control of the Concessions immediately with Mr. Liu being provided 60 days to comply with the formality to transfer 20% of the beneficial interests of the Concessions.

The funds contributed by MEC in relation to the Project shall be a priority item of reimbursement from the cashflow of the Project, subject to applicable laws of Mongolia, and subject to a reasonable provision for the budgeted costs and expenses by MEC, which MEC has the absolute right to determine as with all aspects of the carrying forth of the Project.

Upon the actual transfer of the beneficial ownership of the Concessions, the above arrangements shall continue in place in relation to the Project and further, MEC shall have the right to nominate all directors to the Holding Company and to replace and/or change such any such nominated directors from time to time or at any time for the purposes of carrying forth the above arrangements.

For the avoidance of doubt, MEC shall solely determine all financial, operational and other matters relating to the Project, including all budgets and projects and incurring of all costs and expenses and the timing and amount of the distribution of dividends relating to the Project, which distribution of dividends to Mr. Liu and MEC shall be based on the equity ratio of 80:20 of Mr. Liu to MEC under the Project.

MEC is required to pay a nominal sum of US\$100 to Mr. Liu as consideration for entering into the Agreement. The duration of this Agreement shall be 30 years from the date of the Agreement or the duration of the Concessions, as extended from time to time, whichever is longer.

### **THE DETAILS OF THE CO-OPERATION MEMORANDUM**

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Under the Co-Operation Memorandum, MEC and CNPC Daqing Petroleum agreed to co-operation in other oil and gas exploration and development projects in Mongolia, including on bidding for new projects in Mongolia. In this connection, MEC shall be responsible for Mongolia matters and related bidding costs incurred.

MEC has provided CNPC Daqing Petroleum with relevant legal and technical documents relating to the Concessions. MEC shall co-ordinate with CNPC Daqing Petroleum for the completion of the initial evaluation of the Concessions and to formulate a substantive exploration and development solution, and to provide petroleum engineering and technology services.

MEC is required to pay RMB3,000,000 to CNPC Daqing Petroleum as an initiation fee for the Project, which MEC has arranged payment as at the date of this announcement. Both parties will set up a joint working committee for the Project.

### **BACKGROUND OF CNPC DAQING PETROLEUM**

CNPC Daqing Petroleum is a wholly-owned subsidiary of China National Petroleum Corporation (中國石油天然氣集團公司). The principal business of CNPC Daqing Petroleum is oil and gas exploration, development, petroleum chemical engineering, oilfield construction and the provision of related technological and engineering services. CNPC Daqing Petroleum has 12 group companies, 9 specialized companies and 7 direct units with over 110,000 employees. Please refer to its website at <http://www.cnpc.com.cn/dq>.

CNPC Daqing Petroleum is a state-owned enterprise and not a connected person to the best knowledge of the directors of MEC under the definitions of the Listing Rules.

## **REASONS FOR ENTERING INTO THE AGREEMENT**

MEC has a strategic focus upon its energy business. The Agreement represents an attractive opportunity for MEC, to broaden its energy business, into the oil and gas industry.

The terms of the Agreement, are also attractive. MEC acquires not only a 20% equity interest in the Project but also entire control of the Concessions. These provide MEC with the opportunity to control its financial commitments under the Project.

The co-operation with China Daqing Petroleum allows MEC to draw on the expertise of this world renowned company in relation to implementation of the Project and provides the opportunity to further co-operate with China Daqing Petroleum.

In view of these matters, the board of Directors of MEC is of the view that the entering into the Agreement is fair and reasonable and in the interest of MEC and its shareholders as a whole.

## **IMPLICATION UNDER THE LISTING RULES**

In case (1) any agreement relating to further co-operation between MEC and CNPC Daqing Petroleum, following the Co-Operation Memorandum, is entered into between MEC and CNPC Daqing Petroleum; and (2) any future arrangement or transaction under the Agreement; which constitute notifiable transactions or connected transactions for MEC under the Listing Rules, MEC will comply with the Listing Rules requirements by disclosure and seeking approval from shareholders as and when appropriate.

## **CAUTION WHEN DEALING IN THE SHARES OF MEC**

**The viability of the Project depends on the results of the exploration by CNPC Daqing Petroleum. Also, any further co-operation, between MEC and CNPC Daqing Petroleum, may or may not materialize, and shareholders and investors should exercise caution when dealing in the shares of MEC.**

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For the avoidance of doubt, in preliminary discussions between MEC and CNPC Daqing Petroleum, the parties believe that there is prospect for oil and gas deposits in the Concession areas and hence the parties agreed to enter the Co-Operation Memorandum.

## **FURTHER CO-OPERATION**

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## **THE DETAILS OF THE OIL & GAS AGREEMENT**

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Mr. Liu has indicated that he is considering settling his 80% beneficial ownership of the Concessions a discretionary trust and shall invite Mr. Simon Lo Lin Shing to be a discretionary trustee. The trustees will be within the class of discretionary beneficiaries under the trust for discretionary allocations.

Pending such transfer Mr. Liu and MEC have agreed to take the following steps to allow MEC to control the Concessions: (1) Mr. Liu agrees to provide MEC with 100% control over the Concessions including all rights, powers and privileges to deal with the Concessions absolutely in MEC's own name which Mr. Liu agrees to confirm and ratify in all respects absolutely, as necessary, and (2) MEC agrees with Mr. Liu, to either through itself, or its nominee, provide the necessary funds and expertise in relation to the development of the Concessions (inclusive of exploration expenses). Thus, MEC acquires an interest and control of the Concessions immediately with Mr. Liu being provided 60 days to comply with the formality to transfer 20% of the beneficial interests of the Concessions.

The funds contributed by MEC in relation to the Project shall be a priority item of reimbursement from the cashflow of the Project, subject to applicable laws of Mongolia, and subject to a reasonable provision for the budgeted costs and expenses by MEC, which MEC has the absolute right to determine as with all aspects of the carrying forth of the Project.

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MEC is required to pay a nominal sum of US\$100 to Mr. Liu as consideration for entering into the Agreement. The duration of this Agreement shall be 30 years from the date of the Agreement or the duration of the Concessions, as extended from time to time, whichever is longer.

## **REPRESENTATIONS AND WARRANTIES UNDER THE AGREEMENT**

Mr. Liu provides MEC with the representation and warranties and covenants and undertakings throughout the duration of the Agreement and by reference to the subsisting circumstances and repeated on a day-to-day basis that Mr. Liu is the ultimate beneficial owner of the Concessions and has the legal right to enter and perform the terms and conditions of the Agreement and/or the Project and that the Agreement is enforceable in accordance with its terms.

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CNPC Daqing Petroleum is a state-owned enterprise and not a connected person to the best knowledge of the directors of MEC under the definitions of the Listing Rules.

## **MR. LIU AND THE HOLDING COMPANY**

The Holding Company is a Mongolian company wholly-owned by Mr. Liu. Mr. Liu represents and warrants under the Agreement that the Holding Company has not carried on any business or incurred any expenses except solely in relation to the passive holding of the Concessions in accordance with the laws of Mongolia.

Mr. Liu is a business person based in Beijing, PRC. Mr. Liu is a party to the initial acquisition of the 34,000 hectares of exploration and mining concessions which MEC is acquiring as detailed under MEC's circulars of March 22, 2007 and June 25, 2007. Mr. Liu is also a party to the further acquisition of the 32,000 hectares of exploration concessions which MEC acquired the title on July 16, 2007. There are also various other agreements entered with Mr. Liu as set forth under various announcements of MEC. Further, Mr. Liu is scheduled to become a substantial shareholder of MEC on or prior to January 30, 2008 under the initial acquisition mentioned above.

As of the date of the Agreement, Mr. Liu, the Holding Company and their respective associates are not connected persons to the best knowledge of the directors of MEC under the definitions of the Listing Rules.

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

Hong Kong, December 17, 2007

*As at the date hereof, the Board comprises six Directors, of which Mr. Lo Lin Shing, Simon 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.*

Please also refer to the published version of this announcement in South China Morning Post.