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MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 276)

CONNECTED TRANSACTION

**MEC ACQUISITION OF AN INTEREST
IN XINJIANG KAIYUE YUAN
TO FURTHER JOINT VENTURE PROJECTS
WITH GEOLOGICAL BUREAUS IN XINJIANG, PRC
FOR TARGETED 2 BILLION TONNES OF COAL RESOURCES
AND BEYOND**

Joint Ventures with Geological Bureaus

MEC refers to its earlier announcement of June 20, 2008 (the “**Announcement**”) under which 新疆凱禹源礦業有限公司 (Xinjiang Kaiyue Yuan Minerals Company Limited) (“**Xinjiang Kaiyue Yuan**”), a wholly foreign owned enterprise set up under the laws of the People’s Republic of China (“**PRC**”) and beneficially owned by Mr. Liu Cheng Lin (“**Mr. Liu**”) entered into certain agreements with (1) 新疆煤田地質局 (Xinjiang Coalfield and Geology Bureau) and its Team 156 and (2) 中國煤炭地質總局一二九勘探隊 (China Coal Geology Bureau, Exploration Team 129) (together the “**Geological Bureaus**”) relating to the establishment of two joint ventures for 2 billion tonnes of coal resources (1 billion tones each) in 中國新疆富蘊縣喀姆斯特地區 (Kemusuite area of Fuyun County, Xinjiang, PRC). Xinjiang Kaiyue Yuan is to have an 80% stake and the Geological Bureaus are to have a 20% stake under the respective joint ventures.

Background for Joint Ventures

As noted under the Announcement, Xinjiang Kaiyue Yuan has been authorized by 新疆維吾爾自治區發展和改革委員會 (Development and Reform Commission, Xinjiang Autonomous Region) to co-operate with 新疆煤炭設計研究院有限責任公司 (Xinjiang Coal Design Institute Company Limited) to fund the expenses relating to the overall development plan of the Kemusuite area and to select the geological units in relation to such overall development plan for the Kemusuite area. The Kemusuite area sits in a geological area of around 1,500 sq. km. This provides the background for the co-operation between Xinjiang Kaiyue Yuan and the Geological Bureaus.

Further, the business scope of Xinjiang Kaiyue Yuan has recently been extended from, among others, coal resources exploration and development to iron and copper exploration and development. MEC believes that this opens up further opportunities for Xinjiang Kaiyue Yuan in these resources areas especially as Xinjiang Kaiyue Yuan is a wholly foreign owned enterprise with authorization to deal with these resources.

The resources demonstrated

Xinjiang Kaiyue Yuan informed MEC that the preliminary exploration work of the two Geological Bureaus over an area of the Kemusuite area, with approximately RMB188 million funding incurred by Xinjiang Kaiyue Yuan, has already demonstrated over 2 billion tonnes of coal resources. Xinjiang Kaiyue Yuan shall ensure that the exploration licensed areas containing these resources are contributed by the Geological Bureaus for their 20% ownership interest under the respective joint ventures. MEC will announce the further details as to the resources following the establishment of the respective joint ventures upon receipt of the relevant completed technical information.

MEC's participation under the Joint Ventures

As set out under the earlier Announcement, MEC is to participate in 20% of each of the projects, out of Xinjiang Kaiyue Yuan's 80% stake under each of the projects, either directly or through an investment into Xinjiang Kaiyue Yuan. MEC has now determined to participate under the projects through acquiring a 25% ownership interest of Xinjiang Kaiyue Yuan. This provides MEC an attributable 20% stake (25% of 80%) under each of the projects. Further, this provides an opportunity to participate in other resources projects of Xinjiang Kaiyue Yuan as and when the same arise over time.

Acquisition Agreement

On September 21, 2008, MEC entered into a conditional agreement (“**Acquisition Agreement**”) with Mr. Liu and his Seller's Group (as defined below) under which MEC or its nominee is to acquire a 25% ownership interest in Xinjiang Kaiyue Yuan with registered capital of RMB200 million along with 25% of the related shareholder's loan of RMB200 million to fund such registered capital. MEC is to pay a RMB50 million consideration which represents a reimbursement of 25% of the RMB200 million ownership interest and related shareholder's loan as set out above. Otherwise there is no premium for the transaction. Thereafter, MEC is to contribute all further sums required by Xinjiang Kaiyue Yuan on a *pro rata* basis for all further projects acceptable to MEC but not otherwise.

As the registered capital for each joint venture is anticipated to be RMB200 million, the commitment of MEC, aside from the payment of the sum of RMB50 million as consideration, is a further RMB100 million, or a total of the Hong Kong dollar equivalent of RMB150 million.

Completion of the transaction

The completion of the transaction is to take place on or before December 31, 2008, subject to satisfaction of the conditions precedent set out below. MEC believes that the completion of the transaction will take place shortly and a further announcement will be made following completion.

Xinjiang Kaiyue Yuan

Xinjiang Kaiyue Yuan is a wholly foreign owned enterprise set up in September 11, 2007 under the laws of PRC. The registered capital of the Xinjiang Kaiyue Yuan is RMB 200 million. The main subsisting agreements entered by Xinjiang Kaiyue Yuan are the two agreements with the Geological Bureaus referred under the Announcement.

Reasons for the transaction

As set out above, the transaction allows MEC to acquire a 20% stake under each of the projects

with the Geological Bureaus. Further, MEC has the opportunity to acquire further resources projects in Xinjiang, PRC. The role of Xinjiang Kaiyue Yuan in the Kemusuite area as authorized by 新疆維吾爾自治區發展和改革委員會 (Development and Reform Commission, Xinjiang Autonomous Region) to co-operate with 新疆煤炭設計研究院有限責任公司 (Xinjiang Coal Design Institute Company Limited) to fund the expenses relating to the overall development plan of the Kemusuite area and to select the geological units in relation to such overall development plan for the Kemusuite area is as set out above.

Further, coal is the primary energy source in the PRC. The acquisition of a stake under the projects will provide MEC with an opportunity to MEC to expand its coal resources business from western Mongolia to Xinjiang, PRC. This compliments MEC's business strategy for business expansion from western Mongolia gradually across the border to Xinjiang, PRC, aside from the business expansion to southern Mongolia for oil and gas. Thus, MEC believes that the present acquisition represents an attractive opportunity for MEC.

The consideration represents a reimbursement of 25% of the RMB200 million ownership interest and related shareholder's loan relating to Xinjiang Kaiyue Yuan. Otherwise there is no premium for the transaction. The consideration will be satisfied by MEC's internal resources.

In view of the above, the directors, including the independent non-executive directors, are of the view that the present transaction is fair and reasonable and in the interest of the Company and the shareholders as a whole.

The Risk factors

The risk factors set out under the circulars of March 22, 2007 and June 25, 2007 shall be applied to the present transaction with suitable modifications for the location by including PRC and in relation to the present and any future projects of Xinjiang Kaiyue Yuan.

Listing Rules implications

Mr. Liu is a substantial shareholder to MEC and hence a connected person under the meaning of the Listing Rules. The Acquisition Agreement between MEC and Mr. Liu constitutes a connected transaction to MEC under Chapter 14A of the Listing Rules.

As the relevant ratios for the acquisition of 25% of the Target Company is less than 2.5% of the applicable percentage ratios under the Listing Rules applicable to MEC, it is only subject to reporting and announcement requirements under the Listing Rules which this announcement satisfies.

JOINT VENTURES WITH GEOLOGICAL BUREAUS

MEC refers to its earlier announcement of June 20, 2008 (the "**Announcement**") under which 新疆凱禹源礦業有限公司 (Xinjiang Kaiyue Yuan Minerals Company Limited) ("**Xinjiang Kaiyue Yuan**"), a wholly foreign owned enterprise set up under the laws of the People's Republic of China ("**PRC**") and beneficially owned by Mr. Liu Cheng Lin ("**Mr. Liu**") entered into certain agreements with (1) 新疆煤田地質局 (Xinjiang Coalfield and Geology Bureau) and its Team 156 and (2) 中國煤炭地質總局一二九勘探隊 (China Coal Geology Bureau, Exploration Team 129) (together the "**Geological Bureaus**") relating to the establishment of two joint ventures for 2 billion tonnes of coal resources (1 billion tones each) in 中國新疆富蘊縣喀姆斯特地區 (Kemusuite area of Fuyun County, Xinjiang, PRC). Xinjiang Kaiyue Yuan is to have an 80% interest and the Geological Bureaus are to have a 20% interest under the respective joint ventures.

BACKGROUND FOR JOINT VENTURES

As noted under the Announcement, Xinjiang Kaiyue Yuan has been authorized by 新疆維吾爾自治區發展和改革委員會 (Development and Reform Commission, Xinjiang Autonomous Region) to co-operate with 新疆煤炭設計研究院有限責任公司 (Xinjiang Coal Design Institute Company Limited) to fund the expenses relating to the overall development plan of the Kemusuite area and to select the geological units in relation to such overall development plan for the Kemusuite area. The Kemusuite area sits in a geological area of around 1,500 sq. km. This provides the background for the co-operation between Xinjiang Kaiyue Yuan and the Geological Bureaus.

Further, the business scope of Xinjiang Kaiyue Yuan has recently been extended from, among others, coal resources exploration and development to iron and copper exploration and development. MEC believes that this opens up further opportunities for Xinjiang Kaiyue Yuan in these resources areas especially as Xinjiang Kaiyue Yuan is a wholly foreign owned enterprise with authorization to deal with these resources.

THE RESOURCES DEMONSTRATED

Xinjiang Kaiyue Yuan informed MEC that the preliminary exploration work of the two Geological Bureaus over an area of the Kemusuite area, with approximately RMB188 million funding incurred by Xinjiang Kaiyue Yuan, has already demonstrated over 2 billion tonnes of coal resources and approximately RMB183 million out of the RMB 188 million has been paid out of the cash contribution by Mr. Liu towards the registered capital of Xinjiang Kaiyue Yuan. Xinjiang Kaiyue Yuan shall ensure that the exploration licensed areas containing these resources are contributed by the Geological Bureaus for their 20% ownership interest under the respective joint ventures. MEC will announce the further details as to the resources following the establishment of the respective joint ventures upon receipt of the relevant completed technical information.

MEC's PARTICIPATION UNDER THE JOINT VENTURES

As set out under the earlier Announcement, MEC is to participate in 20% of each of the projects, out of Xinjiang Kaiyue Yuan's 80% stake under each of the projects, either directly or through an investment into Xinjiang Kaiyue Yuan. MEC has now determined to participate under the projects through acquiring a 25% ownership interest of Xinjiang Kaiyue Yuan. This provides MEC an attributable 20% stake (25% of 80%) under each of the projects.

On September 21, 2008, MEC entered into a conditional agreement ("**Acquisition Agreement**") under which MEC is to acquire 25% ownership interest of the Xinjiang Kaiyue Yuan through acquisition of 25% stake of Mongolia Resources (Hong Kong) Company Limited (the "**Target Company**"), the holding company of Xinjiang Kaiyue Yuan along with 25% of the related shareholder's loan of RMB200 million from Mr. Liu to the Target Company for the Target Company to fund such registered capital.

ACQUISITION AGREEMENT

Under the Acquisition Agreement, the Seller (defined below) has agreed to sell and MEC has agreed to purchase (1) the twenty five per cent (25%) (the "**Applicable Percentage**") of the issued and paid up share capital of the Target Company (the "**Target Shares**") and (2) the Applicable Percentage of the RMB200 million equivalent shareholder's loan from the Guarantor (defined below) to the Target Company (the "**Shareholder's Loan**") originally used for funding the ownership contribution to Xinjiang Kaiyue Yuan's registered capital of RMB200 million:

Date: September 21, 2008

Parties:

1. **SHENG GUAN MING INVESTMENTS LIMITED**, a company incorporated under the laws of Western Samoa (the "**Seller**") and wholly owned by the Mr. Liu.
2. **MONGOLIA RESOURCES (HONG KONG) COMPANY LIMITED**, a company incorporated under the laws of Hong Kong (the "**Target Company**") and wholly owned by the Seller.
3. **MR. LIU** (the "**Guarantor**") as ultimate beneficial owner of the Seller and the Target Company and Xinjiang Kaiyue Yuan (the "**Seller's Group**"); and
4. **MONGOLIA ENERGY CORPORATION LIMITED**, a company incorporated under the laws of Bermuda and whose shares and securities are listed and traded on The Stock Exchange.

Consideration:

MEC is to pay a RMB50 million consideration to the Seller as seller of the Target Shares. The consideration represents a reimbursement of the Applicable Percentage of the RMB200 million ownership interest and related Shareholder's Loan. Otherwise there is no premium for the transaction. Thereafter, MEC is to contribute all further sums required by Xinjiang Kaiyue Yuan on a *pro rata* basis for all further projects acceptable to MEC but not otherwise (see Covenants (c) below).

In relation to the respective joint ventures between Xinjiang Kaiyue Yuan and the Geological Bureau, Xinjiang Kaiyue Yuan shall ensure that the exploration licensed areas containing demonstrated 2 billion tonnes of resources are contributed by the Geological Bureaus for their 20% ownership interest under the respective joint ventures in lieu of any monetary payment to the registered capital of the respective joint ventures anticipated to be RMB 200 million each and which registered capital is to be completely contributed by Xinjiang Kaiyue Yuan for the 80% interest under the respective joint ventures. The contribution of cash by the foreign party and the in-kind contribution by the local party to a joint venture is a fairly common model for joint ventures in China. In view of the actual and potential resources figures, the Board of Directors of MEC is of the view that the transaction is fair and reasonable to MEC which has a *pro rata* contribution obligation to the registered capital.

In view of the above, as the registered capital for each joint venture is anticipated to be RMB200 million, the commitment of MEC, aside from the payment of the sum of RMB50 million as consideration, is a further RMB100 million, or a total of the Hong Kong dollar equivalent of RMB150 million.

For completeness, there are no follow-on payments of resources fees to Mr. Liu or the Seller's Group as part of the consideration in relation to the demonstrated coal resources of over 2 billion tonnes or any future demonstrated coal resources. In the event that there are any future resources fee determined to be payable by the PRC authorities by Xinjiang Kaiyue Yuan, the same shall be satisfied by the budgeted cashflow of Xinjiang Kaiyue Yuan and any shortfall funded by MEC and Mr. Liu and his Seller's Group on a *pro rata* basis.

Conditions Precedent:

The completion of the transaction is subject to the satisfaction of the following conditions precedent to the satisfaction of MEC:

- (a) compliance with all applicable Listing Rules requirements;
- (b) all necessary consents and approvals (or waivers) for completion of the transactions having been obtained by the parties; and
- (c) satisfaction of MEC on the legal and financial due diligence on the Seller's Group including but not limited to there is no restriction on the transfer of the Target Shares and the Shareholder's Loan from the Seller to the MEC under Hong Kong laws.

MEC anticipates that the latest financial statements being the main condition precedent for completion of the transaction as the transaction simply involves transfer of the Target Shares over a Hong Kong company which can be achieved at a secretarial level along with the capital verification of the unverified part (RMB50 million) of the registered capital of Xinjiang Kaiyue Yuan. MEC believes that the completion of the transaction will take place shortly and a further announcement will be made following completion.

Completion date:

On or before December 31, 2008. In fact, MEC believes that the completion can take place shortly and a further announcement will be made following completion.

Covenants:

Mr. Liu and each member of the Seller's Group shall and shall procure each other for so long as MEC and/or its nominee have an interest in the Target Company that:

- (a) the Guarantor and each member of the Seller's Group will take all steps in good faith required of them to comply with all applicable rules, regulations and laws binding upon them;
- (b) from time to time and no less than semi-annually provide financial and other business updates of Xinjiang Kaiyue Yuan and will at the request of MEC provide in a timely manner such further information as is required by MEC to comply with the requirements of the Listing Rules or any other applicable rules and regulations;
- (c) Xinjiang Kaiyue Yuan shall consult with MEC prior to taking on any further projects and for the avoidance of doubt, MEC shall not be obliged to provide any funding for any projects, notwithstanding that the Xinjiang Kaiyue Yuan may raise such source of funding from the Seller's Group or any third parties for continuing such projects, provided that the interests of MEC in and to the Seller's Group and Xinjiang Kaiyue Yuan shall not be diluted; and
- (d) procure that subject to paragraph (c) above, to provide all funding for the proper running of the business and affairs of Xinjiang Kaiyue Yuan on a *pro rata* basis with MEC in relation to the respective shareholdings of the Seller's Group and MEC in and to Xinjiang Kaiyue Yuan.

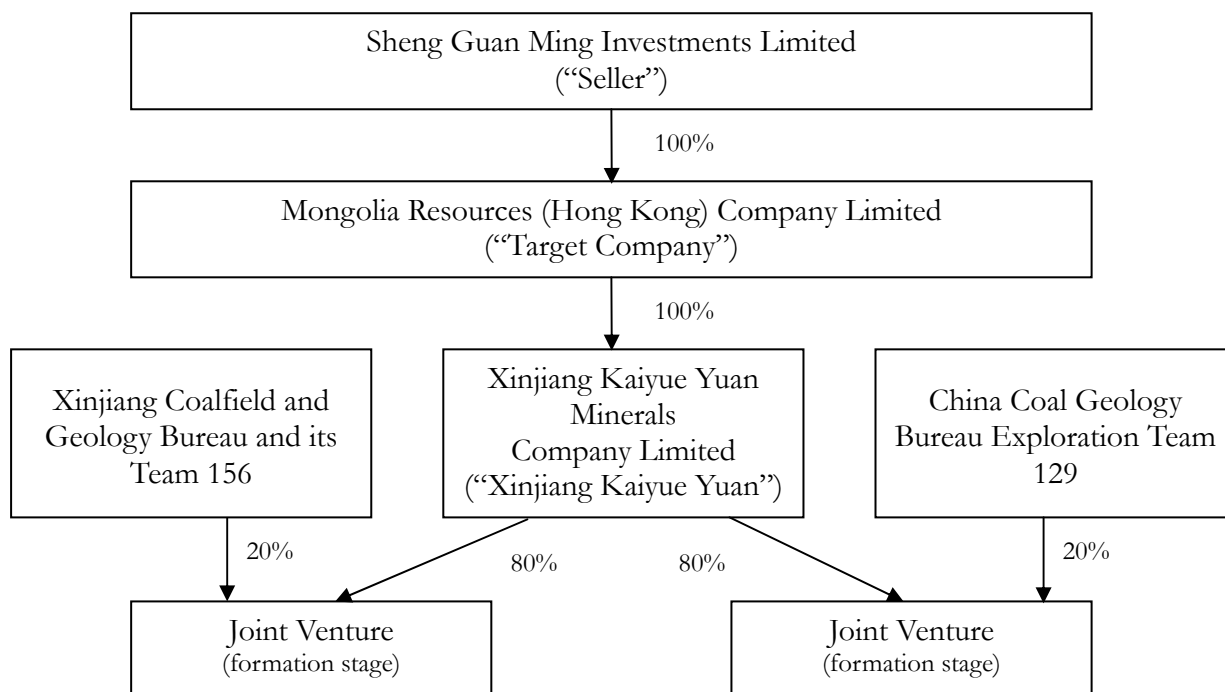
Further, MEC may appoint one out of up to four members of the board of directors of the Target Company.

Guarantee:

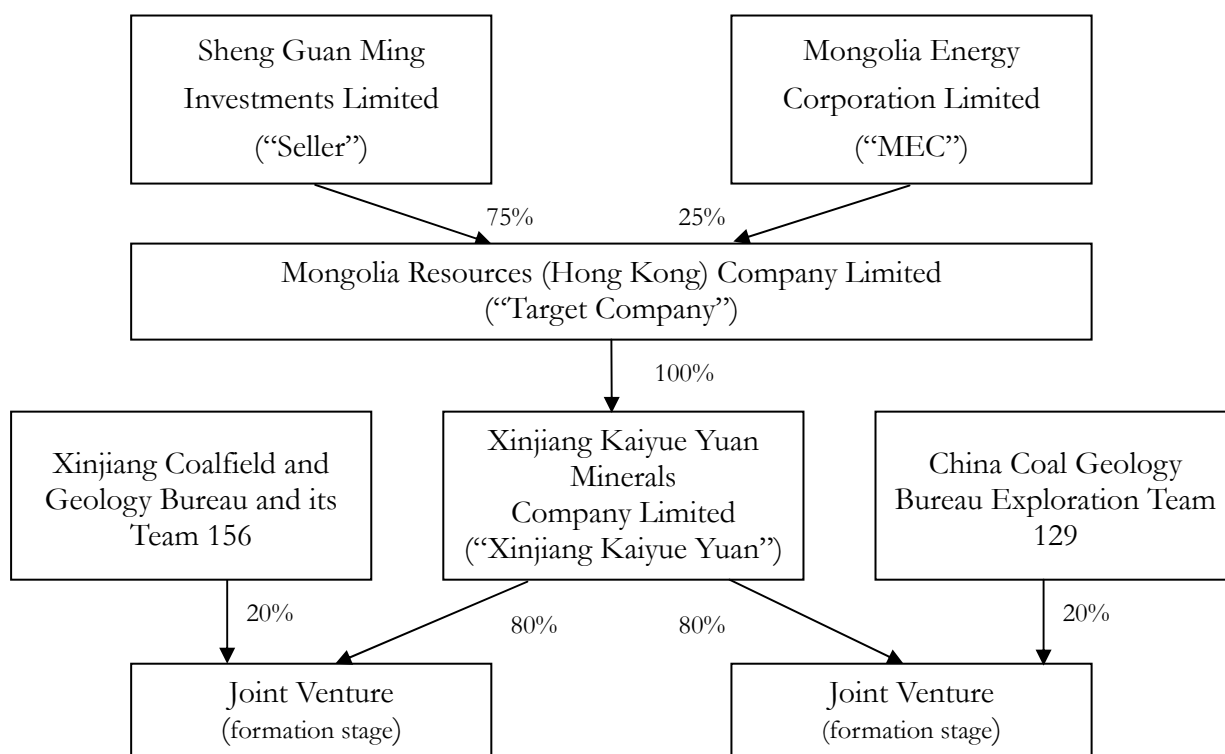
The Guarantor as the beneficial owner of the Seller's Group guarantees, as primary obligor, to MEC the due performance of all members of their respective obligations under the Acquisition Agreement.

Structure of the acquisition

Before acquisition



After acquisition



XINJIANG KAIYUE YUAN

The Seller is Mr. Liu's holding company of the Target Company, which in turn, is the holding company of Xinjiang Kaiyue Yuan. Xinjiang Kaiyue Yuan is a wholly foreign owned enterprise set up in September 11, 2007 under the laws of PRC. The registered capital of the Xinjiang Kaiyue Yuan is RMB 200 million. The main subsisting agreements entered by Xinjiang Kaiyue Yuan are the two agreements with the Geological Bureaus referred under the Announcement. An earlier Agreement of March 5, 2008 as defined and referred under MEC's announcement of March 10, 2008 no longer has effect and MEC will deal directly with Mr. Liu in relation to the relevant transaction set out therein, in accordance with the announcement.

Mr. Liu further warrants under the Acquisition Agreement that Xinjiang Kaiyue Yuan has not raised any third party funding or incur any indebtedness from any third party save and except the normal day-to-day business expenses in the ordinary course of business of Xinjiang Kaiyue Yuan in accordance with its business scope.

Mr. Liu further warrants that apart from the shareholder's loan of RMB 200 million from him, the Target Company has not raised any third party funding or incur any indebtedness from any third party and the Target Company has not carried on any trade or business save and except the passive holding of Xinjiang Kaiyue Yuan.

REASONS FOR THE TRANSACTION

As set out above, the transaction allows MEC to acquire a 20% stake under each of the projects with the Geological Bureaus. Further, MEC has the opportunity to acquire further resources projects in Xinjiang, PRC.

The role of Xinjiang Kaiyue Yuan in the Kemusuite area as authorized by 新疆維吾爾自治區發展和改革委員會 (Development and Reform Commission, Xinjiang Autonomous Region) to co-operate with 新疆煤炭設計研究院有限責任公司 (Xinjiang Coal Design Institute Company Limited) to fund the expenses relating to the overall development plan of the Kemusuite area and to select the geological units in relation to such overall development plan for the Kemusuite area is as set out above.

Further, coal is still the primary energy source in the PRC. The acquisition of 25% interest in the Target Company will provide an opportunity to MEC to expand its coal resources business from western Mongolia to Xinjiang, PRC. This compliments MEC's business strategy for business expansion from western Mongolia gradually across the border to Xinjiang, PRC, aside from the business expansion to southern Mongolia for oil and gas. Thus, MEC believes that the present acquisition represents an attractive opportunity for MEC

The consideration represents a reimbursement of 25% of the RMB200 million ownership interest and related shareholder's loan relating to Xinjiang Kaiyue Yuan. Otherwise there is no premium for the transaction. The consideration will be satisfied by MEC's internal resources.

In view of the above, the directors, including the independent non-executive directors, are of the view that the present transaction is fair and reasonable and in the interest of the Company and the shareholders as a whole.

The Target Company will be treated as an associated company of MEC and its results, assets and liabilities will be incorporated into the Group's consolidated financial statements using equity method of accounting.

INFORMATION OF MEC AND SELLER' S GROUP

MEC's principal business activities are in the energy and related resources areas. MEC's business activities include the acquisition of energy and related resources projects in Mongolia and Xinjiang, PRC, including in the western and southern part of Mongolia for exploration and eventual commercial exploitation of such projects, where viable.

The Seller and the Target Company are both holding companies. The Target Company was incorporated in Hong Kong on March 8, 2007 and Xinjiang Kaiyue Yuan was incorporated in the PRC on September 11, 2007. The Target Company has no assets apart from the ownership of Xinjiang Kaiyue Yuan. The business scope of Xinjiang Kaiyue Yuan includes coal resources, iron and copper exploration and development.

As both the Target Company and Xinjiang Kaiyue Yuan have no operating businesses, there are no operating profit since their respective incorporation. The unaudited loss of the Target Company based on Hong Kong Financial Reporting Standards incurred since incorporation was HK\$6,214.00. The unaudited loss of Xinjiang Kaiyue Yuan incurred (under the accounting standards of the People's Republic of China) since incorporation was RMB 6,578,919.08, comprising mainly of general and administrative expenses of Xinjiang Kaiyue Yuan's office with currently around 25 employees and the accounting entry for the exchange loss due to fluctuations between the HK\$ and RMB exchanges rates for the injection of registered capital.

The unaudited total assets and net assets of the Target Company as at August 31, 2008 based on Hong Kong Financial Reporting Standards were HK\$220,000,000.00 and HK\$3,786.00 respectively. The total assets represent the investment in Xinjiang Kaiyue Yuan.

The unaudited total assets and net assets of Xinjiang Kaiyue Yuan as at August 31, 2008 (prepared under the accounting standards of the People's Republic of China) were RMB 224,200,000.00 and RMB 193,421,380.00 respectively.

Mr. Liu is a party to the initial acquisition of the 34,000 hectares of exploration and mining concessions in western Mongolia as detailed under MEC's circulars of March 22, 2007 and June 25, 2007. There are also various other agreements entered with Mr. Liu as set forth under various announcements of MEC.

THE RISK FACTORS

The risk factors set out under the circulars of March 22, 2007 and June 25, 2007 shall be applied to the present transaction with suitable modifications for the location by including PRC and in relation to the present and any future projects of Xinjiang Kaiyue Yuan.

LISTING RULES IMPLICATIONS

Mr. Liu is a substantial shareholder to MEC and hence a connected person under the meaning of the Listing Rules. The Acquisition Agreement between MEC and Mr. Liu constitutes a connected transaction to MEC under Chapter 14A of the Listing Rules.

As the relevant ratios for the acquisition of 25% of the Target Company is less than 2.5% of the applicable percentage ratios under the Listing Rules applicable to MEC, it is only subject to reporting and announcement requirements under the Listing Rules which this announcement satisfies.

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

Hong Kong, September 25, 2008.

As at the date hereof, 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.