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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Mongolia Energy Corporation Limited (the “Company”), you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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MEC

MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

ISSUE OF HK\$400,000,000 5% COUPON CONVERTIBLE NOTES CONSTITUTING A CONNECTED TRANSACTION

**Independent financial adviser to
the independent board committee and the independent shareholders of the Company**



A letter from the independent board committee of the Company containing its recommendation to the independent shareholders of the Company is set out on page 18 of this circular. A letter from Somerley Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of the Company is set out on pages 19 to 35 of this circular.

A notice convening a special general meeting of the Company to be held at Unit A, 29th Floor, Admiralty Centre I, 18 Harcourt Road, Hong Kong on Tuesday, 8 January 2013 at 10:30 a.m. is set out on pages 41 to 43 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish.

18 December 2012

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Announcement”	the announcement of the Company dated 28 November 2012 in relation to the Subscription
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding a Saturday, Sunday, any public holiday 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”	completion of the Subscription
“Completion Date”	the third Business Day after fulfillment of the Conditions Precedent or such other date as may be agreed in writing 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” in the “Letter from the Board” of this circular
“connected person(s)”	has the meaning as ascribed thereto under the Listing Rules
“Conversion Price”	the initial conversion price of HK\$0.36 per Conversion Share (subject to adjustments as set out in the Notes, 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 Notes by the Noteholders, or otherwise pursuant to the Notes
“CTF”	Chow Tai Fook Nominee Limited, a company incorporated under the laws of Hong Kong with limited liability
“CTF Convertible Note 2011”	the 3% convertible note due 14 June 2014 issued by the Company to CTF, the outstanding principal amount of which was HK\$2,000,000,000 as at the Latest Practicable Date

DEFINITIONS

“Director(s)”	the director(s) of the Company
“Dragon Noble”	Dragon Noble Group Limited, a company incorporated in the British Virgin Islands with limited liability and controlled by Dr. Cheng Kar Shun, being a director of CTF
“GI Convertible Note 2010”	the 3.5% convertible note due 5 September 2013 issued by the Company to Golden Infinity, the outstanding principal amount of which was HK\$300,000,000 as at the Latest Practicable Date
“Golden Infinity”	Golden Infinity Co., Ltd., a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Mr. Lo
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board consisting of all independent non-executive Directors to advise the Independent Shareholders in respect of the Subscription Agreement
“Independent Financial Adviser”	Somerley Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, and appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement
“Independent Shareholders”	Shareholders other than (i) Golden Infinity, Mr. Lo and their respective associates; (ii) CTF and its associates; and (iii) Dragon Noble and its associates
“Last Trading Date”	28 November 2012, being the date of the Announcement and the last trading day on which the Shares were traded on the Main Board of the Stock Exchange
“Latest Practicable Date”	14 December 2012, being the latest practicable date prior to the date of this circular for ascertaining certain information for inclusion in this circular
“Listing Committee”	has the meaning as ascribed thereto under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Long Stop Date”	28 February 2013 or such other date as the parties to the Subscription Agreement may agree in writing
“Maturity Date”	the third anniversary of the date of issue of the Notes (or such other date as consented by the Noteholder(s))
“Mr. Lo”	Mr. Lo Lin Shing, Simon, an executive Director and the chairman of the Company
“Note”	the 5% convertible note in the principal amount of HK\$200,000,000 to be subscribed by each of Golden Infinity and CTF under the Subscription Agreement, and the “Notes” shall be construed accordingly
“Noteholder(s)”	the holder(s) of the Note(s)
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“SF Convertible Note”	the 3.5% convertible notes due 11 November 2013 issued by the Company to three subscribers, the aggregate outstanding principal amount of which was HK\$466,800,000 as at the Latest Practicable Date
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve, inter alia, the entering into of the Subscription Agreement and the performance of the transactions contemplated thereunder by the Company (including but not limited to the issue of the Notes, and the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Note(s))
“Share(s)”	ordinary share(s) of HK\$0.02 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Specific Mandate”	the specific mandate in relation to the allotment and issue of the Conversion Shares by the Company to be sought from the Shareholders at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Subscribers”	collectively, Golden Infinity and CTF, and “Subscriber” means any one of them
“Subscription”	the subscription of the Notes by the Subscribers in accordance with the terms of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 28 November 2012 entered into by the Company and the Subscribers pursuant to which the Company has agreed to issue, and the Subscribers have agreed to subscribe for, the Notes
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

Executive Directors:

Mr. Lo Lin Shing, Simon (*Chairman*)
Ms. Yvette Ong (*Managing Director*)
Mr. Liu Zhuo Wei

Registered office:

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Non-executive Director:

Mr. To Hin Tsun, Gerald

*Head office and principal place of
business in Hong Kong:*

40th and 41st Floors
New World Tower 1
16–18 Queen's Road Central
Hong Kong

Independent Non-executive Directors:

Mr. Peter Pun *OBE, JP*
Mr. Tsui Hing Chuen, *William JP*
Mr. Lau Wai Piu

18 December 2012

*To the Shareholders and, for information only,
the holders of convertible notes of the Company*

Dear Sir or Madam,

**ISSUE OF HK\$400,000,000 5% COUPON CONVERTIBLE NOTES
CONSTITUTING A CONNECTED TRANSACTION**

INTRODUCTION

Reference is made to the Announcement whereby the Board announced that on 28 November 2012 (after trading hours), the Company entered into the Subscription Agreement with Golden Infinity and CTF, pursuant to which the Company agreed to issue the Notes, and each of Golden Infinity and CTF agreed to subscribe for the Note in the principal amount of HK\$200,000,000 due on the third anniversary of the date of its issue convertible into Shares at the initial Conversion Price of HK\$0.36 per Conversion Share (subject to adjustments).

By virtue of Golden Infinity being a substantial Shareholder holding 1,206,078,301 Shares, representing approximately 17.85% of the entire issued share capital of the Company as at the Latest Practicable Date, Golden Infinity is a connected person of the Company and the subscription of the Note by Golden Infinity constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Accordingly, the transactions contemplated under the Subscription Agreement are subject to, among other things, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Peter Pun *OBE, JP*, Mr. Tsui Hing Chuen, William *JP* and Mr. Lau Wai Piu, has been established to advise the Independent Shareholders, and the Independent Financial Adviser has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders, in relation to the terms of the Subscription Agreement.

The purpose of this circular is to give you, among other matters, (a) further information on the Subscription Agreement and the transactions contemplated thereunder; (b) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (c) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (d) the notice of the SGM.

THE SUBSCRIPTION AGREEMENT

Date: 28 November 2012 (after trading hours)

Parties

Issuer: The Company

Subscribers: (a) Golden Infinity Co., Ltd., a company incorporated in the British Virgin Islands with limited liability and a substantial Shareholder; and
(b) Chow Tai Fook Nominee Limited, a company incorporated under the laws of Hong Kong with limited liability

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, CTF and its ultimate beneficial owner are not connected with the Company under the meaning of the Listing Rules.

Subject matter

Pursuant to the Subscription Agreement, the Company as issuer has conditionally agreed to issue the Notes, and each of Golden Infinity and CTF as subscriber has conditionally agreed to subscribe for the Note at the subscription price of HK\$200,000,000 payable in cash upon Completion.

LETTER FROM THE BOARD

Conditions Precedent

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

- (a) the Listing Committee granting or agreeing to grant (either unconditionally or subject only to conditions to which the parties to the Subscription Agreement do not reasonably object) approval for the listing of, and permission to deal in, the Conversion Shares issuable under the Notes and such grant remaining in full force and effect;
- (b) the Stock Exchange having approved (either unconditionally or subject only to conditions to which the parties to the Subscription Agreement do not reasonably object) the issue of the Notes, or the Company not having received any objection from the Stock Exchange to the issue of the Notes;
- (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 Company in connection with the Subscription, issue of the Notes and the Conversion Shares;
- (d) if required, the Bermuda Monetary Authority having approved the issue of the Notes and the allotment and issue of the Conversion Shares or otherwise pursuant to the conditions of the Notes and the Conversion Shares; and
- (e) the passing of the requisite respective resolutions by the Board and the relevant Shareholders at the SGM approving the entering into of the Subscription Agreement and the performance of the transactions contemplated under the Subscription Agreement by the Company.

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.

The Subscription by Golden Infinity and CTF shall be completed simultaneously and if either of the Subscribers fails to complete, the Company shall not be obliged to proceed to Completion.

Completion

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

LETTER FROM THE BOARD

Rescission

If any of the following events occurs at any time prior to 9:30 a.m. on the Completion Date, which in the reasonable opinion of any of the Subscribers, the Subscription would be materially and adversely affected, such 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, all obligations of the parties to the Subscription Agreement shall cease and determine and no party to the Subscription Agreement shall have any claim against the others in respect of any matter or thing arising out of or in connection with the Subscription Agreement save for any antecedent breach of any terms thereof.

Principal terms of the Notes

The principal amount of each Note is HK\$200,000,000. The principal terms of the Notes are summarised below:

The Notes

Two 5% convertible notes due on the third anniversary of the date of issue and each in the principal amount of HK\$200,000,000 will be issued.

Maturity Date

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

Interest

Interest on the Notes shall be calculated at the rate of 5% per annum on the principal amount from time to time outstanding and shall be payable in arrears on each anniversary of the date of issue of the Notes.

LETTER FROM THE BOARD

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 each Note is less than HK\$10,000,000, the whole (but not part only) of the outstanding principal amount of each Note may be converted).

Transferability

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

Conversion rights

Noteholder(s) 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 Notes 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 Notes into Shares at the Conversion Price (subject to adjustments).

Conversion Price

The initial Conversion Price is HK\$0.36 per Conversion Share (subject to adjustments in certain events, including, among others, share consolidation, share subdivision, capitalization issues, capital distribution, right issues of Shares or options (other than share options of the Company under its share option scheme), warrants or other rights over Shares and other equity or equity derivatives issues).

Conversion Shares

Assuming the conversion rights to the Notes are exercised in full at the initial Conversion Price, a total of 1,111,111,110 Conversion Shares will be allotted and issued, representing approximately 16.45% of the entire issued share capital of the Company as at the Latest Practicable Date and approximately 14.12% of the entire issued share capital of the Company as enlarged by the issue of the Conversion Shares.

The net issue price of each Conversion Share after taking into account the related costs and expenses of the transactions contemplated under the Subscription Agreement is approximately HK\$0.36.

The Conversion Shares will be issued under the Specific Mandate to be sought from the Shareholders at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

LETTER FROM THE BOARD

Ranking

The Conversion Shares when issued 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 than five (5) Business Days and not more than ten (10) Business Days' prior written notice to the Noteholder(s), repay the whole or any part of the outstanding principal amount of the Notes 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(s) or any part thereof at any price as may be agreed between the Company or such subsidiary and the Noteholder(s). The Note(s) or any part thereof so purchased shall forthwith be cancelled by the Company.

Status of the Notes

The obligations of the Company arising under the Notes constitute general, unconditional, unsecured and 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 the listing of the Notes on any stock exchange.

Voting rights

The Noteholder(s) 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(s).

Others

In the event that immediately after the exercise of any conversion rights attaching to the Note by any Subscriber, an obligation to make a general offer in respect of the securities of the Company under the Takeovers Code is triggered, such Subscriber agrees and undertakes to the Company that it shall forthwith comply with all the relevant provisions under the Takeovers Code and all applicable laws and regulations.

LETTER FROM THE BOARD

Events of Default

The Noteholder may give notice in writing that the Note shall immediately be due and payable if any of the events of default set out in the Note occurs, which include, among others, the following:

- (a) the listing of the Shares (as a class) on the Stock Exchange:
 - (i) ceases; or
 - (ii) is suspended for a continuous period of twenty one (21) Business Days on each of which the Stock Exchange is generally open for trading (due to the default of the Company or any of its Directors, officers or employees);
- (b) the Company breaches any of the warranties contained in the Subscription Agreement or defaults in performance or in compliance with any of its obligations contained in the conditions of the Note, which breach or default is incapable of remedy or, if capable of remedy, is not remedied within fifteen (15) Business Days after notice of such breach or default is sent from the Noteholder to the Company; or
- (c) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any material part of the undertaking, property, assets or revenues of the Company or any of its subsidiaries and is not discharged, paid out, withdrawn or remedied within fifteen (15) Business Days thereof.

Conversion Price

The initial Conversion Price of HK\$0.36 per Conversion Share represents:

- (a) a premium of approximately 14.3% over the closing price of HK\$0.315 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 4.3% over the average closing price of HK\$0.345 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Date;
- (c) a premium of approximately 3.2% over the average closing price of HK\$0.349 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Date;
- (d) a discount of approximately 62.9% to the unaudited consolidated net assets value of the Company attributable to the Shareholders of approximately HK\$0.97 per Share as at 30 September 2012 (based on the published consolidated net assets of the Company attributable to the Shareholders of approximately HK\$6,548,001,000 and 6,756,547,828 Shares in issue as at 30 September 2012); and

LETTER FROM THE BOARD

- (e) a premium of approximately 2.9% over the closing price of HK\$0.35 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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

USE OF PROCEEDS

Upon Completion, the Company will issue the Notes in the aggregate principal amount of HK\$400,000,000 to the Subscribers and the net proceeds from the issue of the Notes in the amount of approximately HK\$398,900,000 will be used by the Company to finance the Khushuut coking coal project and as general working capital.

REASONS FOR AND BENEFIT OF THE ISSUE OF THE NOTES

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.

As previously disclosed in the interim results of the Company for the six months ended 30 September 2012, the separation of coal from undesired materials and the coal selection process are the technical issues the Group faces in its operation. These factors not only increase costs to the Group's coal haulage, processing and storage, but also affect the Group's product quality and productivity. Apart from the washing plant project, and as part of the solutions to address coal selection issues, the Group has recently placed orders to purchase a dry coal processing system to be installed in the Khushuut mine site. The proposed system is suitable for coal mine with restriction on the source of water supply. The Group is now focusing on the foundation work for setting up the dry coal processing system in the Khushuut coal mine, and targeting to complete the installation of the system by the first quarter of 2013. It is expected that the proposed system will enhance the Group's coal quality in the coal treatment process.

In view of the current coal market condition, and the infrastructures undertaken by the Group for coal quality improvement, the Board considers that the issue of the Notes pursuant to the terms of the Subscription Agreement represents a good opportunity to raise additional capital for strengthening the capital base and financial position of the Group, and to enhance the liquidity position for the development of the Group's Khushuut coking coal project.

Based on the above, the Directors (including the independent non-executive Directors) consider that the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INFORMATION OF THE SUBSCRIBERS

Golden Infinity is a private company incorporated in the British Virgin Islands with limited liability and is a substantial Shareholder holding 1,206,078,301 Shares, representing approximately 17.85% of the entire issued share capital of the Company as at the Latest

LETTER FROM THE BOARD

Practicable Date. Golden Infinity is wholly-owned by Mr. Lo, the chairman and executive Director of the Company. Accordingly, Golden Infinity is a connected person of the Company. Its principal business is investment holding. Golden Infinity is the holder of the GI Convertible Note 2010.

CTF is a private company incorporated under the laws of Hong Kong with limited liability and its principal business is investment holding. As at the Latest Practicable Date, CTF and its associates were holders of 225,000,000 Shares, representing approximately 3.33% of the entire issued share capital of the Company. CTF is the holder of the CTF Convertible Note 2011.

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, there were outstanding (i) the GI Convertible Note 2010 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; (iii) the CTF Convertible Note 2011 issued to CTF; and (iv) 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 67,300,000 Shares. Save as disclosed above, as at the Latest Practicable Date, there were no other outstanding options, warrants, derivatives, or other securities which carried rights to subscribe for or convertible into Shares.

LETTER FROM THE BOARD

The existing shareholding structure of the Company and the effect on the shareholding structure of the Company upon full conversion of the Notes are set out as below:

Shareholders	Existing shareholding		Scenario (A)		Scenario (B)	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
Golden Infinity and its associates ^(Note 1)	1,212,788,301	17.95	1,768,343,856	22.48	1,855,343,856	20.26
CTF and its associates ^(Note 2)	225,000,000	3.33	780,555,555	9.92	1,780,555,555	19.44
Dragon Noble and its associates ^(Note 3)	<u>394,670,000</u>	<u>5.84</u>	<u>394,670,000</u>	<u>5.02</u>	<u>394,670,000</u>	<u>4.31</u>
	1,832,458,301	27.12	2,943,569,411	37.42	4,030,569,411	44.01
Sculptor Finance (MD) Ireland Limited	—	0.00	—	0.00	98,994,267	1.08
Sculptor Finance (AS) Ireland Limited	—	0.00	—	0.00	45,297,452	0.49
Sculptor Finance (SI) Ireland Limited	<u>—</u>	<u>0.00</u>	<u>—</u>	<u>0.00</u>	<u>4,370,700</u>	<u>0.05</u>
	—	0.00	—	0.00	148,662,419	1.62
Other directors of the Group ^(Note 4)	7,283,200	0.11	7,283,200	0.09	18,283,200	0.20
Other public Shareholders	<u>4,916,806,327</u>	<u>72.77</u>	<u>4,916,806,327</u>	<u>62.49</u>	<u>4,961,106,327</u>	<u>54.17</u>
Total	<u><u>6,756,547,828</u></u>	<u><u>100.00</u></u>	<u><u>7,867,658,938</u></u>	<u><u>100.00</u></u>	<u><u>9,158,621,357</u></u>	<u><u>100.00</u></u>

LETTER FROM THE BOARD

Scenarios

- (A) immediately after full conversion of the Notes at the initial Conversion Price of HK\$0.36 per Share
- (B) immediately after full conversion of (i) the Notes at the initial Conversion Price of HK\$0.36 per Share; (ii) the CTF Convertible Note 2011 at the initial conversion price of HK\$2.0 per Share; (iii) the GI Convertible Note 2010 at the initial conversion price of HK\$4.0 per Share; (iv) the SF Convertible Note at the initial conversion price of HK\$3.14 per Share; and (v) the exercise of all the existing outstanding share options of the Company granted pursuant to the Company's share option scheme

Notes:

1. Among the 1,212,788,301 Shares, 4,960,000 Shares represent interest of Mr. Lo on an individual basis; while 1,206,078,301 Shares represent interest of Golden Infinity. The balance of 1,750,000 Shares represent interest of Ms. Ku Ming Mei, Rouisa ("Mrs. Lo"), the spouse of Mr. Lo.
2. CTF, a company controlled by Dato' Dr. Cheng Yu Tung. It is also the holder of the CTF Convertible Note 2011.
3. Dragon Noble is a company controlled by Dr. Cheng Kar Shun.
4. Other directors of the Group, other than Mr. Lo and his associates.

FUND RAISING EXERCISE OF THE COMPANY DURING THE PAST 12 MONTHS

Date of announcement	Event	Approximate net proceeds	Intended use of proceeds	Actual use of proceeds
28 February 2012	Placing of new Shares under the previous general mandate	HK\$117.3 million	For the development of the Khushuut coking coal project and general working capital purposes of the Group	HK\$117.3 million for the development of the Khushuut coking coal project and general working capital purposes 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 the Announcement.

SPECIFIC MANDATE

The Company will seek the Specific Mandate from the Shareholders for the allotment and issue of the Conversion Shares. In this regard, the SGM will be convened and held for approving the entering into of the Subscription Agreement and the performance of the transactions contemplated thereunder by the Company.

As Completion is subject to the fulfillment of the Conditions Precedent, which may or may not be fulfilled, the Subscription may or may not proceed. The Shareholders and potential investors of the Company should exercise caution in dealing in the securities of the Company.

LETTER FROM THE BOARD

GENERAL

By virtue of Golden Infinity being a substantial Shareholder holding 1,206,078,301 Shares, representing approximately 17.85% of the entire issued share capital of the Company as at the Latest Practicable Date, Golden Infinity is a connected person of the Company and the subscription of the Note by Golden Infinity constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Subscription Agreement are subject to, among other things, reporting, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Chapter 14A of the Listing Rules, Golden Infinity, Mr. Lo and their respective associates are required to abstain from voting in respect of the proposed ordinary resolution approving the Subscription Agreement at the SGM.

As Mr. Lo, an executive Director and the chairman of the Company, is the sole beneficial owner of Golden Infinity, he is regarded to have material interests in the Subscription Agreement and the transactions contemplated thereunder. Accordingly, Mr. Lo had abstained from voting in respect of the resolution approving the Subscription Agreement at the meeting of the Board.

As at the Latest Practicable Date, CTF and its associates were holders of 225,000,000 Shares, representing approximately 3.33% of the entire issued share capital of the Company, and Dragon Noble and its associates were holders of 394,670,000 Shares, representing approximately 5.84% of the entire issued share capital of the Company. As both CTF and Dragon Noble are interested in the present transactions, they and their respective associates will abstain from voting in respect of the proposed ordinary resolution approving the Subscription Agreement at the SGM.

SGM

Set out on pages 41 to 43 is a notice convening the SGM to be held at Unit A, 29th Floor, Admiralty Centre I, 18 Harcourt Road, Hong Kong on Tuesday, 8 January 2013 at 10:30 a.m. at which an ordinary resolution will be proposed to consider and, if thought fit, approve the entering into of the Subscription Agreement and the performance of the transactions contemplated thereunder by the Company (including but not limited to the issue of the Notes, and the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Note(s)).

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

LETTER FROM THE BOARD

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on page 18 of this circular. The Independent Board Committee, after taking into account the advice and recommendations of the Independent Financial Adviser, considers that the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed ordinary resolution approving the entering into of the Subscription Agreement and the performance of the transactions contemplated thereunder by the Company at the SGM. The letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 35 of this circular which contains their advice to the Independent Board Committee and the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder as well as the principal factors and reasons taken into consideration in arriving at their advice.

The Directors consider that the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the proposed ordinary resolution as set out in the notice of the SGM to approve the entering into of the Subscription Agreement and the performance of the transactions contemplated thereunder by the Company at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully
For and on behalf of the Board
Mongolia Energy Corporation Limited
Lo Lin Shing, Simon
Chairman



MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

18 December 2012

To the Independent Shareholders

Dear Sir or Madam,

**ISSUE OF HK\$400,000,000 5% COUPON CONVERTIBLE NOTES
CONSTITUTING A CONNECTED TRANSACTION**

We refer to the circular of the Company dated 18 December 2012 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you on the terms of the Subscription Agreement and the transactions contemplated thereunder. The Independent Financial Adviser has been appointed as the independent financial adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 19 to 35 of the Circular. Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information set out in the appendix thereto.

Having considered the terms of the Subscription Agreement and the transactions contemplated thereunder and taking into account the independent advice of the Independent Financial Adviser, in particular the principal factors, reasons and recommendations as set out in their letter, we consider that the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Subscription Agreement and the performance of the transactions contemplated thereunder by the Company are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend you to vote in favour of the proposed ordinary resolution to approve the entering into of the Subscription Agreement and the performance of the transactions contemplated thereunder by the Company at the SGM.

Yours faithfully

For and on behalf of the Independent Board Committee

Peter Pun

Tsui Hing Chuen, William

Lau Wai Piu

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter received from Somerley Limited setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription Agreement for inclusion in this circular.



SOMERLEY LIMITED
20th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

18 December 2012

*To the Independent Board Committee and the Independent Shareholders of
Mongolia Energy Corporation Limited*

Dear Sirs or Madams,

ISSUE OF HK\$400,000,000 5% COUPON CONVERTIBLE NOTES CONSTITUTING A CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription Agreement, details of which are set out in the circular of the Company dated 18 December 2012 (the “**Circular**”) to the Shareholders and, for information only, holders of the convertible notes of the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

By virtue of Golden Infinity being a substantial Shareholder holding 1,206,078,301 Shares, representing approximately 17.85% of the entire issued share capital of the Company as at the Latest Practicable Date, Golden Infinity is a connected person of the Company and the subscription of the Note by Golden Infinity constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Subscription Agreement are subject to, among other things, reporting, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Chapter 14A of the Listing Rules, Golden Infinity, Mr. Lo and their respective associates are required to abstain from voting in respect of the proposed resolution approving the Subscription Agreement at the SGM. The Conversion Shares to be allotted and issued will be issued pursuant to a specific mandate to be sought from the Independent Shareholders at the SGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to the Listing Rules, the Independent Board Committee, comprising Mr. Peter Pun *OBE, JP*, Mr. Tsui Hing Chuen, William *JP* and Mr. Lau Wai Piu, has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement. We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

BASIS OF OUR ADVICE

We are not connected with the Company, Golden Infinity, or any of their respective substantial shareholders or associates, and accordingly, are considered suitable to give independent advice on the Subscription Agreement. Apart from the normal professional fees payable to us in connection with this or similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, Golden Infinity, or any of their respective substantial shareholders or associates.

In formulating our opinion and recommendation, we have reviewed, amongst others, the Subscription Agreement, the interim report of the Company for the six months ended 30 September 2012 (the “**2012 Interim Report**”), the annual report of the Company for the year ended 31 March 2012 (the “**2012 Annual Report**”), the working capital forecast of the Company and the information contained in the Circular. We have also discussed with and reviewed the information provided by the management of the Group regarding the businesses of the Group.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group, which we have assumed to be true, accurate, complete and not misleading in all material aspects as at the date of this letter and will remain as at the date of the SGM. We have sought and received confirmation from the Directors and management of the Group that no material facts have been omitted from the information supplied and opinions expressed by them to us. We consider that the information which we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have considered the following principal factors and reasons:

1. Business of and financial information on the Group

(i) Business of the Group

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 “**Khushuut Coking Coal Project**”).

We understand that the Company had recently completed building the Khushuut Road and successfully secured its commission from the Mongolian authority in December 2011 and commenced commercial production of the mine site at the Khushuut Coking Coal Project (the “**Mine**”) in the first quarter of 2012. However, the Company continued to be hit by both internal and external factors that slowing down the Company’s production process.

Internally, the separation of coal from undesired materials and the coal selection process are the technical issues faced by the Company in its operation. These factors not only increase costs of coal haulage, processing and storage to the Company, but also affect the Company’s product quality and productivity. Before setting up a washing plant in Xinjiang, the PRC (the “**Xinjiang Coal Washing Plant**”), and as an immediate measure, the Company has engaged a coal trading company with a washing plant to provide coal processing services to cope with the infrastructure requirements of the Khushuut Coking Coal Project to process the Group’s raw coking coal. The Group’s coking coal stock in Xinjiang, the PRC will ultimately be sent to coal trading company’s washing facility for process treatment and sales to potential customers. To resolve the technical issues, the Group is also moving forward the building of the Xinjiang Coal Washing Plant. As at the Latest Practicable Date, the preliminary design of the Xinjiang Coal Washing Plant was completed and the site location had been selected and the site location documentation had been approved by the relevant local district authority in Xinjiang, the PRC while an application to the relevant land and resources authority was pending. The Company expects to complete the construction design and budget required for the Xinjiang Coal Washing Plant in January 2013. The Company is also focusing on the foundation work for setting up the dry processing system in the Mine, and targeting to complete the installation of the system by the first quarter of 2013. The proposed system is suitable for coal mine with restriction on the source of water supply and is expected to enhance the Company’s coal quality in the coal treatment process.

Externally, although the Company had started commercial production of the Mine in early 2012, low level of sales activities were recorded as the economy of the PRC is slowing and so is its steel industry. That has sent the price and demand

of coal used for steelmaking down to a certain degree. Potential buyers of coal are more conservative on price and require greater discount and longer settlement period.

Furthermore, the Company was beset by the dispute with its mining contractor. As disclosed in the Company's announcements dated 5 November 2012, 10 October 2012, 11 September 2012 and the 2012 Interim Report, the Company disputes the level of contractor's fees invoiced by its mining contractor and the scope of services provided by it under the relevant mining agreement. As such, the mining contractor suspended its services in September 2012 and completed the handover of the Mine to the Company in October 2012 and the Company had invited tenders from alternative contractors in Mongolia for the provision of coal extraction services at the Mine and the original anticipated cut-off time for the evaluation of the tenders was set at October 2012 but had been subsequently extended by the Company to January 2013. In view of the anticipated change of mining contractor of the Mine and the extension of the contractor selection process until January 2013, the Company anticipates there will be a disruption in coal production at the Mine and the resumption of the coal extraction work at the Mine will be delayed depending on the outcome of the bidding process.

Despite the challenges above, the Company believes its niche proximity to the Xinjiang market and the type of its coking coal are still providing the Company with a favourable driver for moving forward. It is expected that the Company will implement its operation planning prudently in response to the market condition.

On 16 July 2009, the Parliament of Mongolia enacted the Law of Mongolia on the Prohibition of Minerals Exploration and Mining in Headwater Areas, Protected Zones for Water Reserves and Forest Lands (the "MPL") which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas and areas adjacent to rivers and lakes. The Company has instructed its Mongolian legal advisers to conduct enquiry with The Mineral Resources Authority of Mongolia and the relevant government authorities regarding the validity of the Group's licences. The Company has been informed that all of its mining and exploration licences are valid and in effect. However, the Company was informed by its legal advisers that some of the Group's licences have been overlapping with the watershed and forestry areas which may have the potential in future to be classified as prohibited zones by the Mongolian government pursuant to the MPL.

The Khushuut Coking Coal Project's coal resources and operation mainly consist of six mining licences. There is apparently no change to the boundary of the overlapping areas as previously reported as shown under the relevant governmental information, and therefore, based on the review by the management of the Group and an independent coal consultant, the Company believes that such overlapping will not have a material effect on the operation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Company's announcement dated 7 December 2012, on 6 December 2012, a wholly and indirectly owned operating subsidiary of the Company (the "**Operating Subsidiary**") received a letter from the Mining Ministry of Mongolia requesting information of the Mine for assessment of placing the Mine into the list of deposits of strategic importance in Mongolia (the "**Strategic Deposits**"). In the event a mine site is ruled as one of the Strategic Deposits, the Mongolian government will negotiate with the entity concerned as to the mode or percentage of the government's participation and the outcome will depend on the individual negotiations between the parties concerned. It may take the form of production or profit sharing or some other arrangement negotiated between the licence holder and the Mongolian government.

(ii) Financial information on the Group

Financial results

The following are summaries of the condensed consolidated income statements of the Group for the six months ended 30 September 2011 and 2012 as extracted from the 2012 Interim Report and summaries of the consolidated income statements of the Group for the years ended 31 March 2011 and 2012 as extracted from the 2012 Annual Report:

	Six months ended		Year ended	
	30 September		31 March	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	7,817	—	6,215	—
(Loss)/profit before taxation	(1,786,105)	178,348	(4,839,557)	(310,750)
(Loss)/profit for the year/period attributable to the Shareholders	(1,786,105)	178,348	(4,832,172)	(310,750)

The Group has been focusing its effort on the development of the Khushuut Coking Coal Project. For the six months ended 30 September 2012, the Group's revenue generated from its commencement of production at the Mine was adversely impacted by (i) the low sales price of the raw coking coal and small quantity sold; and (ii) the sluggish coking coal market condition in the PRC. The low sales price and small amount of sales were resulted from its unsatisfactory quality of raw coal initially shipped as well as the unfavourable market condition. The Company was further hit by the dispute with the mining contractor in September 2012, the suspension of its mine contractor's services for the Khushuut Coking Coal Project, and the subsequent demobilisation of the equipment and workers and the hand-over

of the Mine to the Company in October 2012. As a result, the Group sold 33,800 tonnes of raw coal to generate approximately HK\$8.6 million in revenue while the cost of sales stood high at approximately HK\$190.4 million mainly due to the write-down of inventories to net realisable value of approximately HK\$170.8 million. The revenue for the six months ended 30 September 2012 was adjusted from approximately HK\$8.6 million to approximately HK\$7.8 million due to the downward adjustment to the contract price as a result of the Group's failing to meet the contract specification for the raw coal shipped in the previous financial year. The management of the Group has attributed the relatively high cost of sales to the failure to operate the Mine during the period at optimum capacity.

The loss for the six months ended 30 September 2012 attributable to the Shareholders was approximately HK\$1,786.1 million, which represents a significant increase of loss when compared to the six months ended 30 September 2011 of a profit of approximately HK\$178.3 million. The significant increase in loss can be chiefly attributable to, among others, an impairment loss of approximately HK\$1.6 billion made in respect of the mining assets of the Mine during the period after the independent qualified valuer of the Company had taken into account the increased discount rate and changes made from previous mine life projection in response to the temporary suspension of production and the decrease in the estimated selling prices of coal.

For the six months ended 30 September 2011, no revenue from coal mining business was recorded as the Mine remained at development stage during that period. The main contributing factor for the profit for the six months ended 30 September 2011 attributable to the Shareholders of approximately HK\$178.3 million was due to a fair value gain on derivative component of the convertible notes of the Company of approximately HK\$390.1 million.

For the year ended 31 March 2012, the Group's revenue generated from its commencement of production at the Mine was approximately HK\$6.2 million represented by a sales volume of approximately 17,350 tonnes of raw coal, which was adversely impacted by the sluggish coking coal market condition in the PRC, the principal market for the Group's coal.

The loss for the year ended 31 March 2012 attributable to the Shareholders was approximately HK\$4,832.2 million, which represents a significant increase of over 15 times from a loss of approximately HK\$310.8 million from the prior year. The significant increase in loss can be chiefly attributable to, among others, an impairment loss of approximately HK\$4.6 billion made in respect of the mining assets of the Mine during the year after the independent qualified valuer of the Company had taken into account

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

changes made to the Group's mine infrastructure plan as a result of continued delays of obtaining water permit for the coal processing plant and thus a serious delay in construction of a coal processing plant at the Mine.

For the year ended 31 March 2011, no revenue from coal mining business was recorded as the Mine remained at development stage in the early 2011. The main contributing factor for the loss for the year ended 31 March 2011 attributable to the Shareholders of approximately HK\$310.8 million was due to, among others, (i) staff costs of approximately HK\$97.0 million; (ii) depreciation and amortisation of approximately HK\$28.5 million; (iii) finance costs of approximately HK\$149.5 million which was primarily made up by the interest expenses of the convertible notes; and (iv) other expenses of approximately HK\$107.2 million.

Assets and liabilities

The following are summaries of the condensed consolidated statements of the financial position the Group as at 30 September 2012 and 31 March 2012 as extracted from the 2012 Interim Report:

	As at 30 September 2012 (Unaudited) HK\$'000	As at 31 March 2012 (Audited) HK\$'000
Non-current assets	9,729,795	11,361,446
Current assets	112,226	182,335
Current liabilities	<u>(1,178,136)</u>	<u>(692,103)</u>
Net current liabilities	(1,065,910)	(509,768)
Non-current liabilities	<u>(2,115,884)</u>	<u>(2,506,364)</u>
Net assets	<u>6,548,001</u>	<u>8,345,314</u>
Financed by:		
Equity attributable to the Shareholders	6,547,944	8,345,257
Minority interests	<u>57</u>	<u>57</u>
Total equity	<u>6,548,001</u>	<u>8,345,314</u>

As at 30 September 2012, the major assets of the Group were the non-current assets, being (i) property, plant and equipment mainly associated with the Khushuut Coking Coal Project of approximately HK\$8,133.7 million; (ii) intangible assets representing software and exclusive right of use of paved road of approximately HK\$1,110.9 million; and (iii) the exploration and evaluation assets associated with other mineral resources of

approximately HK\$303.8 million. The significant decrease in the non-current assets between 30 September 2012 and 31 March 2012 was a result of, among others, the aforementioned impairment loss of approximately HK\$1.6 billion made in respect of the mining assets of the Mine.

Current assets of the Group mainly comprise cash and cash equivalents, coking coal inventories, other receivables, prepayments and deposits as well as held-for-trading investments. The current assets of the Group have decreased from approximately HK\$182.3 million as at 31 March 2012 to approximately HK\$112.2 million as at 30 September 2012. The reason for such decrease was mainly attributable to, among others, deployment of cash for funding mine development such as the construction in progress of the Mine and funding related operating activities.

Non-current liabilities of the Group as at 30 September 2012 mainly comprise the non-current portion of the outstanding convertible notes of the Group (the “**Outstanding Convertible Notes**”) which amounted to approximately HK\$2,115.9 million.

Current liabilities of the Group as at 30 September 2012 mainly comprise advances from Mr. Lo of approximately HK\$630.6 million and current portion of the Outstanding Convertible Notes of approximately HK\$292.4 million, which are repayable within 12 months.

2. Reasons for and use of proceeds of the Subscription

As stated in the letter from the Board in the Circular and the section headed “Business of and financial information on the Group” above in this letter, in view of the current coal market condition, and the infrastructures undertaken by the Group for coal quality improvement, the Board considers that the issue of the Notes pursuant to the terms of the Subscription Agreement represents a good opportunity to raise additional capital for strengthening the capital base and financial position of the Group, and to enhance the liquidity position for the development of the Khushuut Coking Coal Project.

As at 30 September 2012, cash and cash equivalents of the Group were amounted to approximately HK\$22.9 million while the current liabilities and the non-current liabilities reached approximately HK\$1,178.1 million and approximately HK\$2,115.9 million respectively. Majority of the Group’s liabilities comprise the liability components of the Outstanding Convertible Notes comprising the GI Convertible Note 2010 (due on 5 September 2013), the SF Convertible Note (due on 11 November 2013) and the CTF Convertible Note 2011 (due on 14 June 2014) with outstanding principal amounts of HK\$300.0 million, HK\$466.8 million and HK\$2,000 million respectively as well as the advances from Mr. Lo of approximately HK\$630.6 million, which were repayable on demand. The conversion prices of the GI Convertible Note 2010, the SF Convertible Note and the CTF Convertible Note 2011 are HK\$4.0, HK\$3.14 and HK\$2.0 per Share respectively, which represent approximately 11.4 times, 9.0 times and 5.7 times of the closing price of the Shares on the Latest

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Practicable Date respectively. Given these Outstanding Convertible Notes are significantly out-of-money, the likelihood of the Outstanding Convertible Notes being converted by the note holders is low. When these Outstanding Convertible Notes mature, the Company would be obliged to redeem the outstanding principal amount of the relevant Outstanding Convertible Notes. Furthermore, as revealed in the 2012 Annual Report, the net cash outflow from the Group's operating activities amounted to approximately HK\$193.5 million and approximately HK\$124.1 million for the years ended 31 March 2011 and 2012 respectively.

As the Group's commercial production has been hit by both internal and external factors as mentioned in the paragraph headed "Business of the Group" above in this letter and the production issues may not be fully resolved within a short time frame, it is envisaged that the low level of cash holdings of approximately HK\$22.9 million of the Group may not be adequate to cover the Group's upcoming cash outlay for the mining project development. In this regard, we have also reviewed the working capital requirement of the Group and concur with the Company's view that it is necessary to secure additional working capital and funding for the development of the Khushuut Coking Coal Project.

3. Financing alternatives available to the Group

As advised by the management of the Group, the Company has considered other alternative means of financing, including debt financing and other forms of equity financing.

Since the Notes are unsecured, the Directors consider that the obtaining of similar unsecured bank financing will inevitably require the Group to bear a higher financing cost as lending interest rates of unsecured bank financing (if and to the extent available) will not be attractive as compared to the coupon rate of the Notes in the light of the Group's loss-making history for the past years as well as the uncertainty casted by the many challenges faced by the Company as discussed above. In fact, as evidenced from the correspondence between the Company and its principal bank, the bank confirmed that the provision of bank loan will be subject to, among others, the Company being able to provide securities and should the bank loan be provided with securities, the indicative interest rate will still be higher than that of the Notes of 5.0%. We consider the above quotation from the principal bank as representative of current credit status of the Company for obtaining bank loans given the principal bank's close banking relationship with the Company.

Fund raising by way of new share placement will create immediate dilution on the existing Shareholders and it is also common that the investors will request for a discount of the new share placement price to the prevailing market price of the Shares whereas the Conversion Price of HK\$0.36 per Conversion Share was set at a premium of approximately 14.3% over the closing price of the Shares on the Last Trading Date. Alternatively, fund raising through rights issue or open offer will attract higher transaction costs (such as underwriting and other fees) and dilution effects on those non-participating Shareholders will usually be greater as compared to new share

placement and issue of convertibles. After due and careful consideration of various alternatives as discussed above, the Directors consider and we concur with the Directors' view that the issue of the Notes is an appropriate means for the Company to secure its financing.

4. Key terms of the Notes

Pursuant to the Subscription Agreement, the Company as issuer has conditionally agreed to issue the Notes, and each of Golden Infinity and CTF as subscriber has conditionally agreed to subscribe for the Notes at the subscription price of HK\$200,000,000, payable in cash upon Completion. Principal terms of the Notes are set out in the letter from the Board in the Circular.

(i) Conversion Price

The Conversion Price, being HK\$0.36 per Conversion Share, represents:

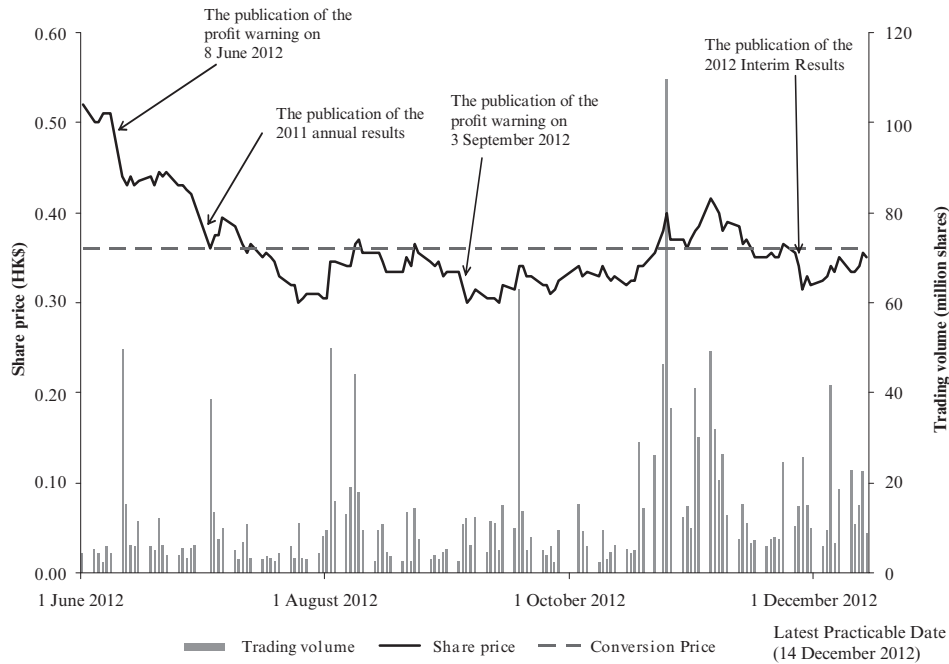
- (i) a premium of approximately 2.9% over the closing price of HK\$0.35 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 14.3% over the closing price of HK\$0.315 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (iii) a premium of approximately 4.3% over the average of the closing prices of HK\$0.345 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Date; and
- (iv) a premium of approximately 3.2% over the average of the closing prices of HK\$0.349 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Date.

We understand that the Conversion Price was determined after arm's length negotiation between the Company and the Subscribers with reference to the prevailing market price of the Shares at the signing of the Subscription Agreement. We concur with the Directors' view that the premiums of the Conversion Price over the prevailing prices of the Shares demonstrate the confidence of Mr. Lo and CTF in the business of the Group.

In order to assess the fairness and reasonableness of setting the Conversion Price at HK\$0.36 per Conversion Share, we have in turn analysed the recent share price performance of the Company. We have chosen the time series of the recent historical share price performance of the Company mainly due to the need to reflect the normalised level of Share prices as a result of the Company's release of its annual results for the year ended 31 March 2012 on 29 June 2012 and its interim results for the six months ended 30 September 2012 (the "**2012 Interim Results**") on 26 November 2012 and their respective profit warning announcements. Set out below are the historical closing price and trading

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

volume chart of the Shares from 1 June 2012 up to and including the Latest Practicable Date (the “**Review Period**”, representing the six whole calendar month period immediately prior to and up to the Latest Practicable Date):



Source: website of the Stock Exchange

During the Review Period, the closing prices of the Shares ranged from the lowest of HK\$0.300 per Share (recorded on 25 July 2012, 5 September 2012 and 13 September 2012 respectively) to the highest of HK\$0.520 per Share (recorded on 1 June 2012). During the Review Period, the price fell from the aforesaid highest price level of HK\$0.520 per Share and oscillated downwards notably following two profit warnings of the Company released on 8 June 2012 and 3 September 2012 respectively as well as the release of the 2012 Interim Results on 26 November 2012 to HK\$0.315 per Share as quoted on the Stock Exchange on the Last Trading Date. The Share price level in the Review Period appears to have already reflected all the sentiments revolved around the challenges faced by the Company in 2012. The average closing price of a Share during the period from the publication date of the 2012 Interim Results to the Latest Practicable Date is approximately HK\$0.337 while the Conversion Price of HK\$0.36 per Share is about 6.8% above the average closing price of a Share for such period.

Based on the above factors, we consider the Conversion Price is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Maturity

The maturity of the Notes is three years from the date of issue of the Notes and the Company is only obliged to redeem the outstanding principal amount of the Notes at par on the Maturity Date. As discussed with the management of the Group, the commercial production of the Mine has commenced and the business activities of the Group will, upon resolving the technical issues associated with coal processing, expand considerably relative to what was recorded in the prior years. The three-year term of the Notes shall provide the Group with adequate time to build up its mining operation before the repayment of the Notes falls due.

(iii) Conversion and redemption

Shareholders should note that the Subscribers have the right to convert, with a minimum principal amount of HK\$10 million and the multiples thereof, during the term of the Notes, the whole or any part of the outstanding principal amount of the Notes into Shares at the Conversion Price (subject to adjustments).

Shareholders should also note that the Company has the right to redeem all or part of the outstanding principal amount of the Notes at par during the term of the Notes. This is favourable to the Company as the Company has more flexibility in the timing of the redemption of the Notes.

(iv) Coupon rate

The Notes carry a coupon rate of 5.0% per annum.

Based on the principal amount of each Note of HK\$200 million, the coupon rate of 5.0% per annum represents a cash payment of HK\$10.0 million by the Company per annum to each of Golden Infinity and CTF. Having taken into account the fact that (i) the funding requirement of the Group as discussed in the section headed “Reasons for and use of proceeds of the Subscription” above in this letter; (ii) the issue of the Notes is the preferred method of financing in the light of the Group’s current financial position and the interest rate of bank financing (if and to the extent available) will not be attractive as compared to the coupon rate of the Notes as discussed in the section headed “Financing alternatives available to the Group” above in this letter; (iii) the coupon rate of 5.0% per annum is lower than the prevailing interest rate of the advances from Mr. Lo; and (iv) the unsecured nature of the Notes, we consider that the 5.0% coupon rate attached to the Notes is acceptable.

(v) Other terms of the Notes

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

applicable laws and regulations. We consider the availability of such terms provides protection to the Company for the purposes of general listing compliance and such terms are also in line with the market practice.

5. Comparable Transactions

In assessing the terms of the Notes, we have reviewed a number of comparable transactions which involved the issue of convertible securities (the “**Comparable Transactions**”). The Comparable Transactions are selected based on the following criteria: (i) the issuers are listed on the Stock Exchange and such transactions are publicly announced by way of announcement made pursuant to the Listing Rules; (ii) the market capitalisation of each issuer is comparable to that of the Company (i.e. within the range between 0.5 time to two times of the market capitalisation of the Company as at the Latest Practicable Date); and (iii) such transactions involve the issue of convertible bonds/notes during 2012 (up to the Latest Practicable Date). On the bases that (i) the review period up to the Latest Practicable Date covers all the issues of convertible securities in the prevailing market conditions; and (ii) the sample size of 21 Comparable Transactions is sufficiently large, we consider the review period of approximately one year to be sufficient for us to arrive at our conclusion on the terms of the Notes.

The Comparable Transactions are set out in the table of the following page.

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Date of announcement	Name of company	Stock code	Market capitalisation (HK\$ million)	Interest rate (per annum)	Maturity (number of years)	Premium/(discount) of conversion price over/(to) the share price of last trading day prior to the publication of the relevant announcement
17 January 2012	Chihor-Tiande Group Limited	976	3,985	4.0%	3.0	51.9%
27 January 2012	China Properties Group Limited	1838	4,505	5.0%	4.0	3.0%
6 March 2012	Brockman Mining Limited (formerly known as Wah Nam International Holdings Limited)	159	3,070	5.0%	3.0	15.4%
13 March 2012	361 Degrees International Limited	1361	4,301	4.5%	5.0	27.4%
26 April 2012	China Ruifeng Galaxy Renewable Energy Holdings Limited	527	1,559	8.0%	5.0	(35.5)%
27 April 2012	Luen Thai Holdings Limited	311	1,260	6.5%	2.0	14.3%
9 May 2012	China Tianyi Holdings Limited	756	1,438	3.5%	3.0	33.1%
26 June 2012	China Power New Energy Development Company Limited	735	4,708	0.0%	5.0	106.3%
13 July 2012	Carnival Group Int'l Holdings Limited	996	1,363	0.0%	5.0	1.7%
4 September 2012	SMI Corporation Limited ("SMI") (Note 1)	198	1,353	5.0%	5.0	431.0%
18 September 2012	Chaowei Power Holdings Limited	951	3,921	7.3%	5.0	20.1%
15 October 2012	Lifetech Scientific Corporation	8122	2,995	1.0%	5.0	(23.7)%
15 October 2012	Lifetech Scientific Corporation	8122	2,995	1.0%	5.0	20.5%
17 October 2012	Viva China Holdings Limited	8032	2,099	0.0%	N/A	1.6%
2 November 2012	Brockman Mining Limited (formerly known as Wah Nam International Holdings Limited)	159	3,070	5.0%	3.0	3.8%
14 November 2012	China Ruifeng Galaxy Renewable Energy Holdings Limited	527	1,559	6.0%	5.0	(7.4)%
16 November 2012	China All Access (Holdings) Limited	633	2,288	10.0%	2.0	33.3%
16 November 2012	Prosperity International Holdings (HK) Limited	803	2,046	8.3%	3.0	13.9%
16 November 2012	Prosperity International Holdings (HK) Limited	803	2,046	0.0%	2.0	26.6%
20 November 2012	China Financial Int'l Investments Limited	721	1,654	7.0%	3.0	20.5%
29 November 2012	Stelux Holdings International Limited ("Stelux") (Note 2)	84	2,888	3.2%	5.0	(1.5)%
			Average	4.5%	3.9	35.9%
			Average (excluding SMI) (Note 1)	4.5%	3.8	16.2%
			Median	5.0%	4.5	15.4%
			Maximum	10.0%	5.0	431.0%
			Minimum	0.0%	2.0	(35.5)%
28 November 2012	The Company/The Notes	276	2,365	5.0%	3.0	14.3%

Source: website of the Stock Exchange and Bloomberg

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Notes:

- 1 The statistics of the convertible notes issued by SMI are considered of extreme values and the premiums of the conversion price are 431.0% over the then prevailing share prices of SMI.
- 2 The convertible notes issued by Stelux carry two types of interest rates (i.e. 3.5% and 2.8%) depending on the identity of the subscriber. We have adopted a simple average interest rate of 3.2% for the purpose of our analysis above.

As set out in the table above, the interest rate of the Notes of 5.0% per annum is higher than the average (excluding SMI) of 4.5% and equal to the median of 5.0% of the Comparable Transactions. The maturity of the Notes of three years is shorter than both of the average (excluding SMI) of 3.8 years and the median of 4.5 years of the Comparable Transactions but it is within the range of 2.0 to 5.0 years.

The premium of the conversion price over the share price on the last trading day preceding the entering into the relevant issue for the convertible notes/bonds is 14.3% for the Notes, which is fairly close to the average (excluding SMI) of 16.2% and the median of 15.4% of the Comparable Transactions. When compared to a 5-day average share price prior to the entering into the relevant issue for the convertible notes/bonds, we note that the premium of the conversion price over the share price for the Notes reduces to only 4.3% as compared to the average (excluding SMI) of 16.4% and the median of 17.6% of the Comparable Transactions. However, Shareholders should note that the Company announced an unsatisfactory 2012 Interim Results on 26 November 2012 (i.e. two days before the signing of the Subscription Agreement). Immediately after publication of the 2012 Interim Results, the closing Share prices dropped by approximately 11.3% in the following two trading days. As the Share price may not have fully reflected the aforesaid poor results before the publication of the 2012 Interim Results, the five-day (comprising three days prior to and and two trading days subsequently to the publication of the 2012 Interim Results) average price of a Share of HK\$0.345 prior to the signing of the Subscription Agreement may not be representative for the market value of the Shares at the time of entering into the Subscription Agreement and may not be meaningful for the analysis above.

Based on the our analysis in sections headed “Key terms of the Notes” and “Comparable Transactions” above, we concur with the Directors’ view that the terms of the Notes are on normal commercial terms and fair and reasonable, and the entering into of the Subscription Agreement and the transactions contemplated under the Subscription Agreement are in the interests of the Company and the Independent Shareholders as a whole.

6. Financial effects of the Subscription on the Group

(i) Net asset value

As advised by the management of the Company, the Notes to be issued by the Company will be accounted for in two separate portions in the Company’s balance sheet, including a liability portion and an equity portion on initial recognition. The liability portion will be included on the balance sheet of the

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Company, whereas the total assets will be increased by the net proceeds of the issue of the Notes. The net effect of the aforesaid will be the increase in the net assets, which is represented by the corresponding increase in the equity portion on the Company's balance sheet. Accordingly, there will be a positive impact on the net assets of the Group upon the issue of the Notes.

(ii) Earnings

As advised by the management of the Company, the liability portion of the Notes will be carried at amortised cost using the effective interest method in subsequent periods. The effective interest expenses of the Notes will be charged to the consolidated income statement subsequent to completion of issue of the Notes and for the three years onward. The effective interest expenses of the Notes will continuously be incurred by the Group until conversion and/or redemption of the Notes in full. Save for the re-measurement of the fair value of the derivative components (being liabilities of the Group) of the Notes at the end of each reporting period, no other gain or loss will be recognised in the Group's consolidated income statement upon initial recognition, conversion or expiration of the Notes.

Although the carrying interest of the Notes will create negative impact on the future earnings of the Group, the issue of the Notes is considered necessary in order to allow the Group to facilitate its mining operation in the Khushuut Coking Coal Project and the funding requirement of the Group as discussed in section headed "Reasons for and use of proceeds of the Subscription" above in this letter.

(iii) Liquidity and working capital

Based on the 2012 Interim Report, the Group had cash and cash equivalents of approximately HK\$22.9 million as at 30 September 2012. Immediately upon completion of the issue of the Notes, the Company will raise net proceeds of approximately HK\$398.9 million from the issue of the Notes and the liability portion of the Notes will be treated as a non-current liability of the Group. Accordingly, the liquidity and working capital position of the Group will be improved upon completion of the issue of the Notes.

7. Potential dilution effect on the shareholdings of the Independent Shareholders

Full conversion of the Notes will result in an allotment and issue of 1,111,111,110 Conversion Shares (based on the Conversion Price), which represents approximately 16.45% of the entire issued share capital of the Company at the Latest Practicable Date and approximately 14.12% of the entire issued share capital of the Company as enlarged by the issue of the Conversion Shares. Dilution effect on the existing public Shareholders is approximately 10.28% (from approximately 72.77% to approximately 62.49% as detailed in Scenario A under the section headed "Effect on shareholding structure of the Company" in the letter from the Board in the Circular). We consider the aforesaid dilution effect acceptable in light of (i) the low level of cash holdings of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Group and the Group's upcoming cash outlay for the mining project development urgently calls for additional working capital and funding for the development of the Khushuut Coking Coal Project; and (ii) alternative means of financing, including debt financing and other forms of equity financing, are limited, and to the extent available, means the Company has to be prepared to pay a higher financing cost or the Independent Shareholders may suffer from a greater degree of dilution.

OPINION AND RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable as far as the Independent Shareholders are concerned, and the entering into of the Subscription Agreement and the transactions contemplated thereunder, though not in the ordinary and usual course of business of the Company, are in the interests of the Group and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM approving the Subscription Agreement.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Kenneth Chow
Managing Director — Corporate Finance

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge, and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, save as disclosed below, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares

Name of Directors	Capacity	Number of issued Shares interested or deemed to be interested	Number of underlying Shares interested or deemed to be interested	Total	Approximate percentage of the existing issued share capital of the Company
Mr. Lo	Beneficial owner	4,960,000 <i>(Note 1)</i>	12,000,000 <i>(Note 1)</i>	1,855,343,856	27.46%
	Interest of a controlled corporation	1,206,078,301 <i>(Note 1)</i>	630,555,555 <i>(Note 2)</i>		
	Interest of spouse	1,750,000 <i>(Note 1)</i>	—		
Ms. Yvette Ong	Beneficial owner	1,090,000	5,500,000 <i>(Note 3)</i>	6,590,000	0.098%
Mr. To Hin Tsun, Gerald	Beneficial owner	5,400,000	1,000,000 <i>(Note 3)</i>	6,400,000	0.095%

Name of Directors	Capacity	Number of issued Shares interested or deemed to be interested	Number of underlying Shares interested or deemed to be interested	Total	Approximate percentage of the existing issued share capital of the Company
Mr. Peter Pun	Beneficial owner	—	1,000,000 (Note 3)	1,000,000	0.015%
Mr. Tsui Hing Chuen, William	Beneficial owner	500,000	1,000,000 (Note 3)	1,500,000	0.022%
Mr. Lau Wai Piu	Beneficial owner	201,200	1,000,000 (Note 3)	1,201,200	0.018%

Notes:

- 4,960,000 Shares represent interest of Mr. Lo on an individual basis, while 1,206,078,301 Shares represent interest of Golden Infinity. The balance of 1,750,000 Shares represent interest of Mrs. Lo, the spouse of Mr. Lo. Accordingly, Mr. Lo is deemed to be interested in the Shares in which Golden Infinity and Mrs. Lo are interested by virtue of the SFO. 12,000,000 underlying Shares represent the new Shares to be issued to Mr. Lo upon the exercise of the share options which were granted to Mr. Lo on 9 April 2010 and 29 February 2012 respectively pursuant to the share option scheme of the Company.
- The 75,000,000 underlying Shares represent the new Shares to be issued by the Company upon full conversion at the initial conversion price of HK\$4 per Share under the GI Convertible Note 2010 issued by the Company to Golden Infinity. 555,555,555 underlying Shares represent the new Shares to be issued by the Company to Golden Infinity upon full conversion at the initial conversion price of HK\$0.36 per Conversion Shares under the Note to be issued pursuant to the Subscription Agreement. Details of the Note and the Subscription Agreement are set out in the section headed “Letter from the Board” in this circular.

Golden Infinity is wholly-owned by Mr. Lo. Accordingly, Mr. Lo is deemed to be interested in the underlying Shares in which Golden Infinity is interested.
- These underlying Shares represent the new Shares to be issued to the respective Directors upon the exercise of the share options which were granted to the respective Directors on 9 April 2010, 1 September 2011 or 29 April 2012 (as the case may be) pursuant to the share option scheme of the Company.

As at the Latest Practicable Date, save as disclosed below, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company which had such discloseable interest or short position	Position in such company
Mr. Lo	Golden Infinity	director

3. DIRECTORS' INTEREST IN CONTRACTS

As at the Latest Practicable Date, none of the Directors:

- (a) had any direct or indirect interest in any assets which had, since 31 March 2012 (being the date to which the latest published audited financial statements of the Company were made up), been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and
- (b) was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

6. LITIGATION

As at the Latest Practicable Date, apart from the dispute with Leighton LLC, the examining contractor of the Group for the Khushuu coking coal project, which had been disclosed in details in the Management Discussion and Analysis section of the interim report of the Company for the six months ended 30 September 2012, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and so far as the Directors were aware, no litigation, arbitration or claim of material importance was pending or threatened by or against any member of the Group or to which the Company or any of its subsidiaries was, or might become, a party.

7. MATERIAL CONTRACTS

Save for (a) the Subscription Agreement; (b) the placing agreement dated 28 February 2012 entered into between the Company and Haitong International Securities Company Limited in relation to the issue of 150,000,000 Shares; and (c) the subscription agreement dated 12 May 2011 entered into between the Company and CTF in relation to the issue of the CTF Convertible Note 2011, no contract (not being contracts entered into in the ordinary course of business) had been entered into by any member of the Group within the two years immediately preceding the Latest Practicable Date which are or may be material.

8. MATERIAL ADVERSE CHANGE

Save for the dispute with Leighton LLC which causes disruption to the Khushuut mine operation and the recognition of the impairment loss on the Khushuut mine assets as disclosed in the interim report of the Company for the six months ended 30 September 2012 and the receipt of a letter from the Mining Ministry of Mongolia regarding the assessment of placing the Khushuut mine into the list of deposits of strategic importance in Mongolia as disclosed in the announcement of the Company dated 7 December 2012, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2012, the date to which the latest published audited financial statement of the Group was made up.

9. EXPERT AND CONSENT

The following is the qualification of the expert who has given advice or opinion contained in this circular:

Name	Qualifications
Somerley Limited	a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter of advice and/or references to its name and logo, in the form and context in which they respectively appear.

As at the Latest Practicable Date, the Independent Financial Adviser did not have (a) any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (b) any direct or indirect interest in any assets which had been, since 31 March 2012 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the head office and principal place of business of the Company in Hong Kong at 40th Floor, New World Tower 1, 16–18 Queen's Road Central, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the annual reports of the Company for the two years ended 31 March 2010 and 2011;

- (c) the interim report of the Company for the six months ended 30 September 2012;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 18 in this circular;
- (e) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 19 to 35 in this circular;
- (f) the written consent referred to in the paragraph headed “Expert and consent” in this appendix;
- (g) the material contracts as set out under the paragraph of “Material contract” in this appendix; and
- (h) all circulars of the Company issued pursuant to the requirements set out in Chapters 14 and 14A of the Listing Rules which have been issued since 31 March 2011, the date to which the latest published audited financial statements of the Group were made up.

11. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Tang Chi Kei, *CPA*. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The principal place of business of the Company in Hong Kong is at 40th and 41st Floors, New World Tower 1, 16–18 Queen’s Road Central, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.
- (d) The English text of this circular and accompanying form of proxy shall prevail over their respective Chinese text in case of inconsistency.



MONGOLIA ENERGY CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 276)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of Mongolia Energy Corporation Limited (the “**Company**”) will be held at Unit A, 29th Floor, Admiralty Centre I, 18 Harcourt Road, Hong Kong on Tuesday, 8 January 2013 at 10:30 a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT**

- (a) the entering into of the subscription agreement dated 28 November 2012 by the Company as issuer with Golden Infinity Co., Ltd. and Chow Tai Fook Nominee Limited (collectively the “**Subscribers**”) as subscribers (the “**Subscription Agreement**”, a copy of which has been produced to the meeting and marked “A” and signed by the Chairman of the meeting for the purpose of identification) in relation to the issue by the Company to the Subscribers of the 5% convertible notes in the aggregate principal amount of HK\$400,000,000 (the “**Notes**”) entitling the holders thereof to convert the principal amount thereof into ordinary shares of the Company (the “**Conversion Shares**”) at an initial conversion price of HK\$0.36 per Conversion Share (subject to adjustments) and the performance of the transactions contemplated under the Subscription Agreement by the Company be and are hereby ratified, confirmed and approved (as appropriate);
- (b) the creation and issue of the Notes upon and subject to the terms of the Subscription Agreement be and are hereby approved;
- (c) subject to and conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of, and permission to deal in, the Conversion Shares, the allotment and issue of the Conversion Shares at the initial conversion price of HK\$0.36 per Conversion Share (subject to adjustments) which may fall to be issued upon exercise of the conversion rights attaching to the Notes be and is hereby approved and the directors of the Company (the “**Directors**”) be and are hereby authorised to exercise all the powers of the Company to allot and issue the Conversion Shares pursuant to and in accordance with the terms of the Subscription Agreement; and

NOTICE OF THE SGM

- (d) any of the Directors or, if the affixation of the common seal of the Company is required, any one of the Directors and the company secretary of the Company or any two Directors or such other person or persons as the board of the Directors may appoint be and is/are hereby authorised for and on behalf of the Company to approve, sign, seal, execute, perfect and deliver all documents and to do all such acts, deeds, matters and things which considered by him/them to be desirable, necessary or expedient for the purpose of, or in connection with the implementation of and giving effect to the Subscription Agreement and the transactions contemplated thereunder, including without limitation to the issue of the Notes, the allotment and issue of the Conversion Shares and the execution, amendment, supplement, delivery, submission and implementation of any further documents or agreements in connection therewith.”

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

Hong Kong, 18 December 2012

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

*Head office and principal place of
business in Hong Kong:*
40th and 41st Floors
New World Tower 1
16–18 Queen’s Road Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the SGM convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. A form of proxy for use at the SGM is enclosed. In order to be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, shall be delivered to the offices of the Company’s branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Delivery of a form of proxy will not preclude a member from attending and voting in person at the SGM and in such event, the form of proxy shall be deemed to be revoked.

NOTICE OF THE SGM

3. In the case of joint holders of a share, if more than one of such joint holders be present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of such joint holding.
4. As at the date of this notice, the board of Directors comprises seven Directors, of which Mr. Lo Lin Shing, Simon, Ms. Yvette Ong and Mr. Liu Zhuo Wei are executive Directors, Mr. To Hin Tsun, Gerald is a non-executive Director and Mr. Peter Pun *OBE, JP*, Mr. Tsui Hing Chuen, William *JP* and Mr. Lau Wai Piu are independent non-executive Directors.