

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

CONTINUING CONNECTED TRANSACTION AND CONNECTED TRANSACTIONS

On 9 May 2011, a number of indirect wholly-owned subsidiaries of the Company entered into the following agreements with certain connected persons of the Company:

- (i) Power and Heat Generation, Distribution and Management Agreement between MCS International and Energy Resources, a wholly-owned subsidiary of the Company whereby MCS International agreed to provide power and heat generation, distribution and UHG Power Plant's operation management services to the Group for a period of 18 months commencing from 9 May 2011 for a total consideration of MNT24,081,369,519 (equivalent to approximately US\$19,171,844);
- (ii) Pipelines and Supporting Facilities Construction Agreement between MCS International and United Power, a wholly-owned subsidiary of the Company whereby MCS International agreed to construct pipelines and other ancillary supporting facilities for the UHG Power Plant for a total consideration of US\$9,626,107.51;
- (iii) CHP Concrete Installation Agreement between MCS Property and Enrestechology, a wholly-owned subsidiary of the Company whereby MCS Property agreed to provide concrete preparation and pouring concrete services for the phase 2 construction of the CHP foundation for a total consideration of MNT5,196,355,883.51 (equivalent to approximately US\$4,136,963); and
- (iv) Electrical Installation Agreement between MCS International and Enrestechology, a wholly-owned subsidiary of the Company whereby MCS International agreed to install high voltage electrical facilities for phase 2 of the CHPP construction for a total consideration of MNT1,493,735,230 (equivalent to approximately US\$1,189,204).

LISTING RULES IMPLICATIONS

Each of MCS International, and MCS Property is a wholly-owned subsidiary of MCS Holding LLC which indirectly owns a 100% shareholding interest in MCS Mining Group Limited, a substantial shareholder of the Company. As such, each of MCS International and MCS Property is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the transaction contemplated under the Power and Heat Generation, Distribution and Management Agreement constitutes a continuing connected transaction of the Company.

As the proposed annual caps of the continuing connected transaction under the Heat and Power Generation, Distribution and Management Agreement is more than 0.1% but less than 5% under the revenue ratio, pursuant to Rule 14A.34 of the Listing Rules, the transaction contemplated in the Heat and Power Generation, Distribution and Management Agreement is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios for each of the transactions contemplated under the Pipelines and Support Facilities Construction Agreement, the CHP Concrete Installation Agreement and the Electrical Installation Agreement are more than 0.1% but less than 5%, pursuant to Rule 14A.32 of the Listing Rules, each of the transactions contemplated in the Connected Transactions Agreements are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTION

A. POWER AND HEAT GENERATION, DISTRIBUTION AND MANAGEMENT AGREEMENT

Date: 9 May 2011

Parties: Energy Resources, an indirect wholly-owned subsidiary of the Company

MCS International, a wholly-owned subsidiary of MCS Holding LLC which indirectly owns a 100% shareholding interest in MCS Mining Group Limited, a substantial shareholder of the Company

Principal terms:

MCS International agreed to provide the following services to the Group:

- Operation management of the UHG Power Plant including the recruitment of qualified and trained staff to operate the facilities, obtaining other resources for power plant operation and appointing sub-contractor to operate and maintain the UHG Power Plant on a day to day basis, procurement, overhaul, shutdown and any improvements of the UHG Power Plant;
- Electricity distribution services including inspection, maintenance and routine repair of the 12.5MW diesel power generators and transformers at the site substations, procurement and transportation of fuel; and
- Heat distribution services including management of boiler houses of the Company to supply heating to different facilities at the UHG deposit.

Consideration and payment terms:

Total consideration payable by the Group to MCS International under the Power and Heat Generation, Distribution and Management Agreement is MNT24,081,369,519 (equivalent to approximately US\$19,171,844), inclusive of VAT, other applicable taxes in Mongolia and all other costs. The consideration will cover labour costs including salary, accommodation, transportation, insurance and meal for personnel of MCS International and other related expenses

to the extent of the scope of work to be undertaken by MCS International. The consideration will be paid in advance by Energy Resources on a monthly basis on or before 5th of each month upon receipt of invoices from MCS International. The amount of monthly fee will range between MNT1,698,970,159 (equivalent to approximately US\$1,352,597) and MNT1,106,517,289 (equivalent to approximately US\$880,929) since operations of the UHG Power Plant have just commenced and not yet stabilized for now.

The Group itself will be responsible for the costs of all supplies of fuel, coal and water, spare parts, materials, tools, consumables and equipment mechanism and other supplies required for the operation of the UHG Power Plant and the performance of services by MCS International under the Power and Heat Generation, Distribution and Management Agreement.

The consideration was determined on an arm's length basis between Energy Resources and MCS International.

Performance Guarantees:

Upon execution of the Power and Heat Generation, Distribution and Management Agreement, MCS International has agreed to arrange for the issue of performance guarantees in the form of performance bonds amounted to 10% of the total consideration to Energy Resources for provision of the services pursuant to the Power and Heat Generation, Distribution and Management Agreement.

In the event that MCS International breaches any of the terms of the Power and Heat Generation, Distribution and Management Agreement relating to the provision of services, Energy Resources shall have the right to demand payment from MCS International of all or part of the underlying amount of the performance bonds. MCS International must deliver such performance bonds to Energy Resources within 28 days from 9 May 2011 which shall remain valid and enforceable until MCS International has completed the services pursuant to the terms of the Power and Heat Generation, Distribution and Management Agreement. Energy Resources may extend the validity of the performance bonds until the services have been completed and any defects have been remedied by MCS International.

Proposed annual caps:

The following table sets out the proposed annual caps for the Power and Heat Generation, Distribution and Management Agreement for the two financial years 2011 and 2012 ending 31 December (the "**Proposed Power and Heat Generation, Distribution and Management Agreement Annual Caps**"):

	Financial year ending 31 December	
	2011	2012
Power and Heat Generation, Distribution and Management Agreement	MNT12,072,719,146 ¹ (equivalent to approximately US\$9,611,425)	MNT13,108,650,373 ² (equivalent to approximately US\$10,436,159)

Notes:

1. Proposed amount for the 8 months from 1 May 2011 to 31 December 2011.
2. Proposed amount for the 10 months from 1 January 2012 to 31 October 2012.

We estimated the Proposed Power and Heat Generation, Distribution and Management Agreement Annual Caps based on fixed monthly remunerations for each of 18 months, VAT, other taxes and additional disbursements that would be applicable and payable for the services of MCS International under the Power and Heat Generation, Distribution and Management Agreement.

Term of the services:

The Power and Heat Generation, Distribution and Management Agreement will be effective for an initial period of 18 months commencing from 9 May 2011. Upon the mutual agreement of the parties, the duration may be extended to a date to be agreed between the parties.

Reasons for the transaction:

The UHG Power Plant being constructed at the UHG deposit has commenced operations in March 2011. Since the commencement of the operation of the UHG Power Plant, the Group has faced management issue as to how to utilize the power plant, which has made it inevitable to select companies with appropriate expertise.

In accordance with the laws of Mongolia, generation, distribution and supply of power shall be carried out by holders of special permits issued by the Government of Mongolia. MCS International and its subsidiaries hold such special permits required for operating the UHG Power Plant. License related to the energy sector has one specific feature, being that “a license to conduct one specific activity is issued only to one company”. In general, the scope of a license is limited to certain territory and one specific activity and therefore only one legal entity may hold a license to conduct energy related activities (including, but not limited to, the generation, transmission and unregulated supply thereof) in relation to a particular source of energy within the territory specified in the relevant permit.

Each of Enerco LLC and Erchim Suljee LLC holds licenses for heat and electricity distribution in Ukhaa Khudag, Tsogttsetsii Soum where the UHG Power Plant is located. Both Enerco LLC and Erchim Suljee LLC are subsidiaries of MCS International and are considered as national-level companies in the energy sector. MCS International is a company with the required financial capacity, human resources and technical capacity and has over 17 years of experience in the energy sector, having already implemented eight major nationwide energy projects in Mongolia.

In consideration of the fact that no further license in relation to the territory of Ukhaa Khudag will be issued and the extensive experience and expertise of MCS International, Enerco LLC and Erchim Suljee LLC, the Directors believe that it is in the best interests of the Company to enter into the Power and Heat Generation, Distribution and Management Agreement with MCS International to ensure that the services acquired by the Group are of the highest quality and professional level.

CONNECTED TRANSACTIONS

B. PIPELINES AND SUPPORTING FACILITIES CONSTRUCTION AGREEMENT

Date: 9 May 2011

Parties: United Power, an indirect wholly-owned subsidiary of the Company

MCS International, a wholly-owned subsidiary of MCS Holding LLC which indirectly owns a 100% shareholding interest in shareholding interest in MCS Mining Group Limited, a substantial shareholder of the Company

Principal terms:

MCS International agreed to construct the pipelines and supporting facilities of the UHG Power Plant at the UHG deposit. The supporting facilities include water pump station with the water reservoir of a 800m³ and a 2x300m³, a separate operational building for ACC, domestic water and waste water pipelines and outdoor heating pipelines for workshops, staff quarters and other facilities for operation of the UHG Power Plant.

Consideration and payment terms:

Total consideration payable by the Group to MCS International under the Pipelines and Supporting Facilities Construction Agreement is US\$9,626,107.51, including VAT and other applicable taxes in Mongolia and all other costs.

The consideration is payable in instalments as described below:

- (a) 30% of the consideration will be paid within 5 days of signing of the Pipelines and Supporting Facilities Construction Agreement;
- (b) 20% of the consideration will be paid upon completion of 50% of the construction works;
- (c) 20% of the consideration will be paid upon completion of 70% of the construction works;
- (d) 20% of the consideration will be paid upon completion of 90% of the construction works; and
- (e) 10% of the consideration will be paid upon full completion of the construction works.

Amount equal to 5% of each instalment (other than the final instalment) will be retained by United Power until completion of the construction works and will only be released to MCS International upon receipt of bank guarantee issued by a bank acceptable to United Power which is equal to the total retention amount by United Power and upon issuance of practical taking over certificate by United Power after inspection of the completion of the construction works by MCS International.

The consideration was determined on an arm's length basis between the Company and MCS International.

Term of the construction works:

The construction works of the pipelines and other supporting facilities of the UHG Power Plant is expected to be completed by 30 September 2011.

Reasons for the transaction:

The Company has been working together with MCS International to construct the UHG Power Plant and considers MCS International as an experienced and competent contractor qualified to carry out the works in respect of the project of the UHG Power Plant. As such, the Company engaged MCS International to construct continuously the pipelines and related supporting facilities for the UHG Power Plant as required for its operation.

C. CHP CONCRETE INSTALLATION AGREEMENT

Date: 9 May 2011

Parties: Enrestechnology, an indirect wholly-owned subsidiary of the Company

MCS Property, a wholly-owned subsidiary of MCS Holding LLC which indirectly owns a 100% shareholding interest in MCS Mining Group Limited, a substantial shareholder of the Company

Principal terms:

MCS Property agreed to execute works associated with the preparation and pouring of structural concrete foundations in accordance with the drawings, specifications and standards referred to in the CHP Concrete Installation Agreement for the structures of phase 2 of CHP including foundation modification, plant feed conveyer, product coal transfer station, extension foundation, rom dump station, magnet station, raw coal sizing station, raw coal conveyor, reject bin and sump, reject conveyer, radial stacker, transformer foundation and CHP floor etc.

Consideration and payment terms:

Total consideration payable by the Group to MCS Property under the Concrete Installation Agreement is MNT\$5,196,355,883 (equivalent to approximately US\$4,136,963), including VAT and other applicable taxes in Mongolia and all other costs.

The consideration is payable in instalments as described below:

- (a) 30% of the consideration will be paid in advance upon signing of the CHP Concrete Installation Agreement;
- (b) 65% of the consideration will be paid upon receipt by Enrestechnology of MCS Property's invoice on progress payment based on the inspection and measurement to be done on the 20th of each month in the amount equal to the portion of contractor's performance;
- (c) 5% of the consideration will be paid after demobilization and full completion of the contract works.

The consideration was determined by tendering proposal submitted by MCS Property.

Term of the construction works:

The concrete installation of the CHP foundation is expected to be completed by 21 July 2011.

Reasons for the transaction:

Sedgman has been engaged by the Company to undertake the detailed design, engineering, procurement, construction and commissioning for phase 2 of the CHPP construction project and accordingly Sedgman invited suitable suppliers to tender for various civil and concrete works for CHP construction. The Company has selected MCS Property based on recommendations from Sedgman and past performance on phase 1 works, as well as considering its proven ability to produce quality concrete and experienced site management.

D. ELECTRICAL INSTALLATION AGREEMENT

Date: 9 May 2011

Parties: Enrestechnology, an indirect wholly-owned subsidiary of the Company

MCS International, a wholly-owned subsidiary of MCS Holding LLC which indirectly owns a 100% shareholding interest in MCS Mining Group Limited, a substantial shareholder of the Company

Principal terms:

MCS International agreed to execute the design, supply, installation and testing of high voltage lines and 35kV underground distribution power cables for the construction of phase 2 of CHPP. The portion of work shall be carried out by MCS International under the Electrical Installation Agreement shall include, but not limited to the following:

- (a) supply, fabrication, surface treatment and installation of electrical equipment, including but not limited to: cable ties, cable ladder, unistrut, bolts, brackets, cable termination kits, lugs and other electrical ancillaries and items required to provide a fully functional high voltage electrical system;
- (b) supply, installation, termination and testing of the underground 35kV high voltage cables in accordance with the cable schedule and cable trench profile drawings;
- (c) supply and installation of stabilized sand in all trench road crossings;
- (d) supply and installation of fibre optic and control conduits and pits in accordance with the cable trench profile drawings; and
- (e) supply of as built cable lengths for all installed cables.

Consideration and payment terms:

Total consideration payable by the Group to MCS International under the Electrical Installation Agreement is MNT1,493,735,230 (equivalent to approximately US\$1,189,204), including VAT, other applicable taxes in Mongolia and all other costs.

The consideration is payable in instalments as described below:

- (a) 30% of the consideration will be paid in advance upon signing of the Electrical Installation Agreement;
- (b) 65% of the consideration will be paid upon receipt by Enrestechnology of MCS International's invoice on progress payment based on the inspection and measurement to be done on the 20th of each month in the amount equal to the portion of Contractor's performance; and
- (c) 5% of the consideration will be paid after demobilization and full completion of the contract works.

The consideration was determined by tendering proposal submitted by MCS International.

Term of the construction works:

The installation of high voltage electrical is expected to be completed by 31 August 2011.

Reasons for the transaction:

Sedgman invited suitable suppliers to tender for various works under the Electrical Installation Agreement. Having examined the tendering documents and the offer submitted by MCS International and considering its high quality performance of same nature work for phase 1 of CHPP construction, as well as its familiarity with the construction conditions of CHPP and possession of sufficient professional engineers, the Company decided to award the contract to MCS International.

INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES

The Company is principally engaged in open-pit mining and sale of coking coal in Mongolia.

Energy Resources, an indirect wholly-owned subsidiary of the Company, is principally engaged in the operation of the UHG deposit.

United Power, an indirect wholly-owned subsidiary of the Company, is principally engaged in the construction and operation of the UHG Power Plant.

Enrestechnology, an indirect wholly-owned subsidiary of the Company, is principally engaged in the operation of the CHPP.

INFORMATION OF MCS INTERNATIONAL, MCS PROPERTY AND MCS HOLDING

MCS International, a wholly-owned subsidiary of MCS Holding LLC, is principally engaged in energy supply.

MCS Property, a wholly-owned subsidiary of MCS Holding LLC, is principally engaged in the property development.

MCS Holding LLC is an investment holding company.

LISTING RULES IMPLICATIONS

Each of MCS International and MCS Property is a wholly-owned subsidiary of MCS Holding LLC which indirectly owns a 100% shareholding interest in MCS Mining Group Limited, a substantial shareholder of the Company. As such, each of MCS International and MCS Property is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the transaction contemplated under the Power and Heat Generation, Distribution and Management Agreement constitutes a continuing connected transaction of the Company.

As the proposed annual caps of the continuing connected transaction under the Heat and Power Generation, Distribution and Management Agreement is more than 0.1% but less than 5% under the revenue ratio, pursuant to Rule 14A.34 of the Listing Rules, the transaction contemplated in the Heat and Power Generation, Distribution and Management Agreement is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios for each of the transactions contemplated under the Pipelines and Support Facilities Construction Agreement, the CHP Concrete Installation Agreement and the Electrical Installation Agreement are more than 0.1% but less than 5%, pursuant to Rule 14A.32 of the Listing Rules, each of the transactions contemplated in the Connected Transactions Agreements are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Mr. Odjargal Jambaljamts, Mr. Gantumur Lingov, Mr. Enkh-Amgalan Luvsantseren and Mr. Enkhtuvshin Gombo, being a Director and a director of MCS Holding LLC, has abstained from voting on the relevant resolutions of the Board in relation to the approval of the Agreements.

The Board (including the independent non-executive Directors) is of the view that the Agreements have been entered into on normal commercial terms and in the ordinary and usual course of business of the Group and the terms of the Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

DEFINITION

“Agreements” the Power and Heat Generation, Distribution and Management Agreement, the Pipelines and Support Facilities Construction Agreement, the CHP Concrete Installation Agreement and the Electrical Installation Agreement;

“ACC” Air Cooling Condenser

“Board”	the board of Directors;
“Company”	Mongolian Mining Corporation (Stock code: 975), a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange;
“CHPP”	the coal handling and preparation plant constructed at the UHG deposit;
“CHP”	the coal handling plant constructed at the UHG deposit as outside part of the CHPP;
“CHP Concrete Installation Agreement”	Contract for CHP Concrete Installation between MCS Property and Enrestechnology dated 9 May 2011;
“Connected Transactions Agreements”	the Pipelines and Support Facilities Construction Agreement, the CHP Concrete Installation Agreement and the Electrical Installation Agreement;
“Director(s)”	director(s) of the Company;
“Electrical Installation Agreement”	Contract for High Voltage Electrical Installation between MCS International and Enrestechnology dated 9 May 2011;
“Energy Resources”	Energy Resources LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company;
“Enrestechnology”	Enrestechnology LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“MCS International”	MCS International LLC, a company incorporated in Mongolia with limited liability, is a wholly-owned subsidiary of MCS Holding LLC;
“MCS Property”	MCS Property LLC, a company incorporated in Mongolia with limited liability, is a wholly-owned subsidiary of MCS Holding LLC;
“MNT”	togrok or tugrik, the lawful currency of Mongolia;

“Power and Heat Generation, Distribution and Management Agreement”	Power and Heat Generation, Distribution and Management Agreement between MCS International and Energy Resources dated 9 May 2011;
“Sedgman”	Sedgman LLC, a company incorporated in Mongolia with limited liability, is a wholly-owned subsidiary of Sedgman Limited, a company listed on the Australian Securities Exchange; Sedgman LLC is a contractor for the CHPP;
“Shareholder(s)”	shareholder(s) of the Company;
“Pipelines and Support Facilities Construction Agreement”	Pipelines and Support Facilities Construction Agreement between MCS International and United Power dated 9 May 2011;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“US\$”	United States Dollar, the lawful currency of the United States of America;
“UHG deposit”	the Group’s Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield;
“UHG Power Plant”	the 3x6 MW on site power plant constructed at the UHG deposit, Tsogtsetsii, Umnugobi, Mongolia;
“United Power”	United Power LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company;
VAT	value added tax
“%”	per cent.

For the purpose of this announcement, unless otherwise indicated, the exchange rate of MNT1,256.08 = US\$1, has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such a rate or at any other rates.

For and on behalf of the Board
Mongolian Mining Corporation
Odjargal Jambaljamts
Chairman

Hong Kong 9 May, 2011

As at the date of this announcement, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battengel Gotov, being the executive Directors, Mr. Gantumur Lingov, Ms. Enkhtuvshin Gombo, Mr. Enkh-Amgalan Luvsantseren, Dr. Oyungerel Janchiv, Mr. Philip Hubert ter Woort and Mr. Batsaikhan Purev, being the non-executive Directors, and Mr. Ochirbat Punsalmaa, Mr. Unenbat Jigid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.