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MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)



Exclusive Financial Advisor

(1) DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN QGX COAL LTD. INVOLVING ISSUE OF CONDITIONAL CONVERTIBLE BOND

(2) CHANGE IN THE USE OF PROCEEDS

THE ACQUISITION

The Board wishes to announce that on 31 May 2011, the Buyer, a wholly-owned subsidiary of the Company, and the Company entered into a Share Purchase Agreement with the Seller and Seller's Parent pursuant to which the Buyer has agreed to acquire the Sale Shares from the Seller for a total consideration of US\$464,465,000, consisting of US\$379,465,000 in cash payable by the Buyer to the Seller and US\$85,000,000 by the issue of the Convertible Bond by the Company to QGX Holdings, subject to the Reserve Adjustment and the Royalty Provision pursuant to the terms of the Share Purchase Agreement. Particulars of the Reserve Adjustment and the Royalty Provision are set out in the section headed "Consideration".

The Company will issue the Convertible Bond to QGX Holdings on the date of Completion, particulars of the Consideration and the Convertible Bond are set out in the sections headed "Consideration" and "Convertible Bond" below. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

LISTING RULE IMPLICATIONS

As the applicable percentage ratio for the Acquisition calculated based on the maximum Consideration of US\$950,000,000 is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company pursuant to Rule 14.06(2) of the Listing Rules.

CHANGE IN THE USE OF PROCEEDS

As disclosed in the prospectus of the Company dated 28 September 2010 in relation to the initial public offering of the Company in October 2010, it was the intention of the Company that net proceeds of approximately HK\$1,607.2 million (equivalent to approximately US\$206 million) from the initial public offering would be used for acquisitions of companies with existing exploration rights and additional mining assets. As the Consideration is expected to exceed the aforesaid net proceeds of approximately HK\$1,607.2 million (equivalent to approximately US\$206 million), the Directors consider it would be in the interests of the Company and the Shareholders as a whole to reallocate a portion of the net proceeds of approximately HK\$2,008.9 million (equivalent to approximately US\$257 million) from its initial public offering originally designated for financing the Company's mine and transportation infrastructure development projects, which included approximately US\$125 million to finance a portion of the Company's railway project, to fund the difference.

INTRODUCTION

The Board wishes to announce that on 31 May 2011, the Buyer, a wholly-owned subsidiary of the Company, and the Company entered into a conditional Share Purchase Agreement with the Seller and Seller's Parent pursuant to which the Buyer has agreed to acquire the Sale Shares from the Seller for a total consideration of US\$464,465,000, consisting of US\$379,465,000 in cash payable by the Buyer to the Seller and US\$85,000,000 by the issue of the Convertible Bond to be issued by the Company to QGX Holdings, subject to the Reserve Adjustment and the Royalty Provision pursuant to the terms of the Share Purchase Agreement.

The major terms of the Acquisition are set out below.

THE SHARE PURCHASE AGREEMENT

Date:

31 May 2011 (after trading hours)

Parties:

- (a) Mongolian Coal Corporation Limited as the buyer;
- (b) Quincunx (BVI) Ltd. as the seller;
- (c) Kerry Mining (Mongolia) as the seller's parent and guarantor for the Seller; and
- (d) the Company as the buyer's parent and guarantor for the Buyer.

The Seller is owned, indirectly, as to 90% by Kerry Mining (Mongolia) and 10% by MCS Minerals LLC. MCS Minerals LLC is owned as to 51% by Mr. Odjargal Jambaljamts (an executive Director and chairman of the Board) and as to 49% by MCS Holding LLC (the controlling shareholder of the Company). Save as disclosed, to the best of the knowledge, information and belief of the Board, and having made all reasonable enquires, the Seller and its ultimate beneficial owners are independent third parties who are independent of and not connected with the Directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates.

Subject matters:

The Sale Shares represent the entire issued share capital of the Target Company.

Since the Target Company has yet to commence sales, no profit has been recorded. As at 31 December 2010 (being the date up to which the latest published audited accounts of the Target Company were made), the net asset value of the Sale Shares was approximately US\$29,664,827.

Consideration:

The Consideration of US\$464,465,000 is to be satisfied in the following manner:

- (1) as to US\$379,465,000¹ in cash payable by the Buyer to the Seller; and
- (2) as to US\$85,000,000 by the issue of the Convertible Bond by the Company to QGX Holdings.

Note:

1. *a portion of the cash payable by the Buyer to the Seller is in the form of a promissory note with a 2-month maturity.*

Particulars of the Convertible Bond are set out in the sections headed “Convertible Bond” below.

Pursuant to the Share Purchase Agreement, the Consideration may be adjusted as follows:

- (1) approximately 18 months to 21 months from the date of the Share Purchase Agreement, an additional payment may be payable to the Seller or a clawback may be payable by the Seller in the amount of US\$3.00 per tonne to the extent to which total proved and probable reserves (as defined under the Australian Code for Reporting of Mineral Resources and Ore Reserves) contained in the Baruun Naran Coking Coal Mine (the “**Total Reserves**”) exceeds 150,000,000 tonnes or are less than 150,000,000 tonnes, respectively (the “**Reserve Adjustment**”). Under the Reserve Adjustment, the maximum amount payable to the Seller will be US\$105,000,000 and the maximum amount payable by the Seller will be US\$90,000,000; and
- (2) an additional life of mine payment of US\$6.00 per tonne in the event that the actual amount of coal extracted from the Baruun Naran Coking Coal Mine exceeds a specified semi-annual production target fixed on the date of the determination of Total Reserves in each semi-annual period after the date of Completion commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December (the “**Royalty Provision**”).

Taking into account the Reserve Adjustment and the Royalty Provision, the total amount of payment to be received by the Seller for the Acquisition is not to exceed US\$950,000,000 over the life of the Baruun Naran Coking Coal Mine.

Basis of the Consideration:

The Consideration is determined after arm's length negotiations between the Buyer and the Seller after taking into account the Company's estimation of the total reserve, coal quality and mine development status in the Baruun Naran Coking Coal Mine, and potential commercial benefits of the Acquisition to the Company. The Directors are of the view that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole. We expect to satisfy the Consideration via internal cash resources of the Group as well as the net proceeds of the initial public offering.

Completion:

Completion of the Acquisition will take place on or about 1 June 2011.

CONVERTIBLE BOND

The principal terms of the Convertible Bond are as follows:

Principal amount:	US\$85,000,000
Maturity:	The date falling 18 months to 21 months, subject to the Reserve Adjustment, from the date of issue of the Convertible Bond
Interest:	2.0% per annum payable semi-annually
Transferability:	A Bondholder may assign or transfer the Bond registered in its name without consent from the Company, to (a) any of its wholly-owned subsidiaries, (b) any other entity in respect of which the relative beneficial ownership of Kerry Mining (Mongolia) and MCS Minerals LLC is substantially the same as their respective beneficial ownership of the Bondholder immediately prior to such assignment or transfer and (c) in the event the Bondholder becomes a wholly-owned subsidiary of Kerry Mining (Mongolia), any of its Affiliates or any member of the Kuok Group; provided that an assignment or transfer of the Bond shall be limited to assignments or transfers in whole only, and not in part
Conversion Right:	The Convertible Bond will only be convertible at maturity at the election of the Bondholder
Conversion Price:	HK\$10.92 per Conversion Share The Conversion Price was arrived at after arm's length negotiations between the Company and the Seller and is equivalent to 120% of the closing price of the Shares quoted on the Stock Exchange as of 31 May 2011 and represents: (i) a premium of approximately 20% over the closing price of HK\$9.10 (equivalent to approximately US\$1.17) per Share as quoted on the Stock Exchange on 31 May 2011, being the last trading day immediately before the release of this announcement;

- (ii) a premium of approximately 20.8% over the average closing price of approximately HK\$9.04 (equivalent to approximately US\$1.16) per Share as quoted on the Stock Exchange for the last five trading days up to and including 31 May 2011;
- (iii) a premium of approximately 19% over the average closing price of approximately HK\$9.18 (equivalent to approximately US\$1.18) per Share as quoted on the Stock Exchange for the last ten trading days up to and including 31 May 2011.

The Board considers that the Conversion Price is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Redemption and purchase:	Unless converted, the Company will redeem all the Convertible Bond at the principal amount on maturity
Ranking of Conversion Shares:	Conversion Shares will rank pari passu in all respect with the Shares in issue on the relevant date of registration of holders of such Shares on the register of members of the Company
Voting rights:	The Bondholder will not be entitled to vote at any general meeting of the Company by reason only of it being the holder of the Convertible Bond
Listing:	Application will not be made for the listing of the Convertible Bond on the Stock Exchange. The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares

ISSUE UNDER GENERAL MANDATE

The Conversion Shares will be issued and allotted by the Company pursuant to the general mandate granted to the Directors on 17 September 2010. As at the date of this announcement, no Shares have been issued under such general mandate.

SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (1) as at the date of this announcement; and (2) after issue of the Conversion Shares (assuming the Convertible Bond is converted in full and no reduction in principal amount), assuming that there is no other change in the share capital of the Company from the date of this announcement to the date of Completion:

	As at the date of this announcement		Immediately after issue of the Conversion Shares (assuming the Convertible Bond is converted in full and no reduction in principal amount)	
	No. of Shares	Approximate %	No. of Shares	Approximate %
MCS Mining Group Limited	1,629,669,000	43.99	1,629,669,000	43.28
Petrovis Resources Inc.	423,000,000	11.42	423,000,000	11.23
Kerry Mining UHG Limited	300,000,000	8.10	300,000,000	7.97
QGX Holdings	—	—	60,714,285	1.61
Public	1,352,367,500	36.50	1,352,367,500	35.91
Total:	<u>3,705,036,500</u>	<u>100</u>	<u>3,765,750,785</u>	<u>100</u>

The Conversion Shares (assuming the Convertible Bond is converted in full and no reduction in principal amount) represent (i) approximately 1.64% of the existing issued share capital of the Company; and (ii) approximately 1.61% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

REASONS FOR THE ACQUISITION

The Acquisition provides the Group with a unique opportunity to purchase a coking coal asset strategically located adjacent to the UHG deposit in advanced development stage. The asset will allow the Group to expand its existing footprint in Mongolia and realise its growth via acquisition strategy while enhancing value for Shareholders. The sizable coking coal resources and reserves estimated in the Baruun Naran Coking Coal Mine will open potential to diversify the Group's coal products and enhance sources of revenue. The proximity between the Baruun Naran Coking Coal Mine and the UHG deposit will enable to create synergies such as sharing of mine and transportation infrastructure and marketing. The Directors believe that the demand for coking coal will continue to grow. The Directors therefore believe that the Acquisition enables the Group to further expand its coking coal mining business and to solidify the Company's position as the leading coking coal miner in Mongolia.

The Board (including the independent non-executive Directors) believes that the terms of the Acquisition are fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE COMPANY

The principal business of the Company is investment holding. The Company and its subsidiaries are engaged principally in open-pit mining and sale of coking coal in Mongolia.

INFORMATION ABOUT THE SELLER

The principal business of the Seller is investment holding. The Seller is owned, indirectly, as to 90% by Kerry Mining (Mongolia) and 10% by MCS Minerals LLC. MCS Minerals LLC is in turn owned as to 51% by Mr. Odjargal Jambaljamts (an executive Director and chairman of the Board) and as to 49% by MCS Holding LLC (the controlling shareholder of the Company). Save as disclosed, to the best of the knowledge, information and belief of the Board, and having made all reasonable enquires, the Seller and its ultimate beneficial owners are independent third parties who are independent of and not connected with the Directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates.

INFORMATION ABOUT THE TARGET COMPANY

The Target Company is a company incorporated in Gibraltar with limited liability on 25 March 2008, which ultimately owns the Baruun Naran Coking Coal Mine. The Baruun Naran Coking Coal Mine is located in southern Mongolia, Umnugobi Aimag (Southgobi province) approximately 500 km south of Ulaanbaatar, the capital of Mongolia, and around 60 km east of Dalanzadgad, the provincial center. It is located approximately 30 km from the UHG deposit.

According to the pre-feasibility study completed by Minarco MineConsult dated 20 March 2008, the indicated and measured resources of the Baruun Naran Coking Coal Mine, measured in accordance with National Instrument 43-101, the (Canadian) Standards of Disclosures for Mineral Projects, were estimated at approximately 253 million tonnes of measured and indicated coal resources and 193 million tonnes of potential mineable coal. The study also indicated that coking coal and thermal coal, being products that could be produced after processing of coal extracted from the Baruun Naran Coking Coal Mine, with following indicative specifications as shown below:

	Coking Coal	Thermal Coal
Ash (% , ad)	11	20
VM (% , ad)	31	27
CSN	7-8	n/a
Calorific Value (kcal/kg, gar)	7,200-7,300	5,800-6,000
Sulphur (% , ad)	0.6	0.7

The Company anticipates that these estimates may change as it begins to conduct its own studies and analyses on the Baruun Naran Coking Coal Mine.

LISTING RULES IMPLICATIONS

As the applicable percentage ratio for the Acquisition calculated based on the maximum Consideration of US\$950,000,000 is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company pursuant to Rule 14.06(2) of the Listing Rules.

As disclosed above, the Consideration is subject to adjustments pursuant to the terms of the Share Purchase Agreement. The maximum Consideration payable to the Seller by the Buyer under the Acquisition will remain a discloseable transaction under the Listing Rules. The Company will issue further announcement to disclose the final sum of the Consideration if the Consideration has been adjusted after Completion and ensure compliance with the relevant requirements of the Listing Rules.

CHANGE IN THE USE OF PROCEEDS

As disclosed in the prospectus of the Company dated 28 September 2010 in relation to the initial public offering of the Company in October 2010, it was the intention of the Company that net proceeds of approximately HK\$1,607.2 million (equivalent to approximately US\$206 million) from the initial public offering would be used for acquisitions of companies with existing exploration rights and additional mining assets. As the Consideration is expected to exceed the aforesaid net proceeds of approximately HK\$1,607.2 million (equivalent to approximately US\$206 million), the Directors consider it would be in the interests of the Company and the Shareholders as a whole to reallocate a portion of the net proceeds of approximately HK\$2008.9 million (equivalent to approximately US\$257 million) from its initial public offering originally designated for financing the Company's mine and transportation infrastructure development projects, which included approximately US\$125 million to finance a portion of the Company's railway project, to fund the difference.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisition”	the purchase of the Sale Shares by the Buyer from the Seller subject to the terms and conditions of the Share Purchase Agreement
“Affiliate”	with respect to any person, any other person directly or indirectly controlling, controlled by, or under common control with such person, provided that neither the Company nor any subsidiary shall be considered an Affiliate of the Seller
“Baruun Naran Coking Coal Mine”	Baruun Naran coking coal mine located in South Gobi, Mongolia owned by the Target Company
“Board”	the board of Directors
“Bondholder”	holder of the Convertible Bond from time to time
“Buyer”	Mongolian Coal Corporation Limited, a company incorporated in Hong Kong with limited liability, is a direct wholly-owned subsidiary of the Company
“Company”	Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the sale and purchase of the Sale Shares in accordance with the Share Purchase Agreement

“Consideration”	the aggregate consideration of US\$464,465,000 for the sale and purchase of the Sale Shares, subject to adjustments, pursuant to the Share Purchase Agreement
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Conversion Price”	HK\$10.92 per Conversion Share
“Conversion Shares”	up to 60,714,285 new Shares, which may be issued upon exercise by the Bondholder(s) of the conversion rights attached to the Convertible Bond
“Convertible Bond”	the convertible bond in the aggregate principal amount of US\$85,000,000 to be issued by the Company to the Seller pursuant to the Share Purchase Agreement
“Directors”	directors of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Kerry Mining (Mongolia)” or “Seller’s Parent”	Kerry Mining (Mongolia) Limited, a company incorporated in the British Virgin Islands with limited liability, is a member of the Kuok Group
“km”	kilometer
“Kuok Group”	companies owned and/or controlled by Mr. Kuok Hock Nien and/or interests associated with him
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MCS Minerals LLC”	MCS Minerals LLC, a limited liability corporation organized under Mongolian laws, is owned as to 51% by Mr. Odjargal Jambaljamts and 49% by MCS Holding LLC
“Ordinary Shares”	the ordinary shares, par value US\$1.00 per share, of the Target Company
“Preferred Shares”	the redeemable preferred shares, par value of US\$1.00 per share of the Target Company
“QGX Holdings”	QGX Holdings Ltd., a company incorporated in the British Virgin Islands with limited liability, is owned as to 10% by MCS Minerals LLC and 90% by Kerry Mining (Mongolia)
“Sale Shares”	1,000 issued Ordinary Shares and 100 issued Preferred Shares representing the entire issued share capital of the Target Company immediately before Completion

“Seller”	Quincunx (BVI) Ltd., a company incorporated in the British Virgin Islands with limited liability, is a wholly-owned subsidiary of QGX Holdings
“Share(s)”	ordinary share(s) of US\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Share Purchase Agreement”	a share purchase agreement entered into among the Company, the Buyer, the Seller and the Seller’s Parent dated 31 May 2011 in relation to, among others, the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	QGX Coal Ltd., a company incorporated in Gibraltar with limited liability, is a wholly-owned subsidiary of the Seller
“UHG deposit”	the Group’s Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield in Mongolia
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	percentage

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

Hong Kong, 1 June 2011

As at the date hereof, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being the executive Directors, and 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 Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.