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## **MONGOLIAN MINING CORPORATION**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 975)**

### **CONNECTED AND CONTINUING CONNECTED TRANSACTIONS**

On 3 April 2012, the Company and a number of indirect wholly-owned subsidiaries of the Company entered into the following agreements with certain connected persons of the Company:

- (1) Master Agreement for ICT Services and Supply between MCS Electronics and the Company, representing the Group, whereby MCS Electronics agreed to provide services including (i) internet connection services (ii) intranet services (iii) iridium and satellite internet service for UB Head quarter and camp sites located at Ukhaa Khudag (“UHG”) and Baruun Naran (“BN”) deposits and Tsagaan Khad; (iv) IT equipment and server rent service; (v) fiber optic line rent and maintenance services; (vi) IP line rent service; (vii) services for the maintenance of sure clock system for registration of attendance of employees; (viii) maintenance of reliable operations of a computer program in relation to finance and accounting; (ix) services for maintenance of GPS system installed with trucks for coal transportation; (x) supply of laptops, computers, printers, copiers, projectors, UPS, monitors, flash discs, external HDD, cameras (Digital Video/Photo), CCTV, Kenwood radio (Hand device), tetra radio, servers storage, RFID (Reader for weigh bridges), video conference sets and other IT hardware; and (xi) fiber optic network installation in the areas between UHG mine to BN mine, UHG camp to Tavan Tolgoi airport, inside of UHG mine site including Coal Handling and Preparation Plant (“CHPP”), water supply facilities, power plant and Transgobi’s office, and 50 kilometers far away boreholes in Naimdain Khundii and any additional site/area to the Group for a period commencing from 3 April 2012 to 31 December 2014 for a total consideration of MNT14,583,916,165 (equivalent to approximately US\$11,078,972). MCS Electronics will subcontract certain of its obligations under the Master Agreement for ICT Services and Supply to MCS Holding, Univision, Skynetnetworks and Orbitnet;

- (2) Engineering Procurement and Construction Management Service Agreement for new school, kindergarten and dormitory complex between MCS Property and Energy Resources, an indirect wholly-owned subsidiary of the Company, whereby MCS Property agreed to provide Energy Resources engineering, procurement and construction management (“EPCM”) services for new school, kindergarten and dormitory complex in Tsogtsetsii soum of Umnugobi province, Mongolia for a period commencing from 3 April 2012 to 31 December 2012 for a total consideration of MNT3,166,735,887 (equivalent to approximately US\$2,405,676). The new school, kindergarten and dormitory complex will be built as a part of corporate social responsibility activities of Energy Resources jointly with Governor’s office of Umnugobi province of Mongolia in order to effectively manage the growing pressure on social services resulting from population influx to Tsogtsetsii soum and to provide quality education services for the children of Energy Resources’ employees who have resettled in Umnugobi province. The new school, kindergarten and dormitory complex will be a state owned property of Mongolia;
- (3) Engineering Procurement and Construction Management Service Agreement for mining equipment workshop II between MCS Property and Energy Resources Mining, an indirect wholly-owned subsidiary of the Company, whereby MCS Property agreed to provide Energy Resources Mining EPCM services for construction of mining equipment workshop II at the UHG mine for a period commencing from 3 April 2012 to 1 September 2012 for a total consideration of MNT7,345,947,105 (equivalent to approximately US\$5,580,500);
- (4) Amendment to the Power and Heat Generation, Distribution and Management Agreement dated 9 May 2011 between MCS International and Energy Resources, an indirect wholly-owned subsidiary of the Company, whereby the parties agreed to extend the contract period from 9 November 2011 to 31 December 2014;
- (5) Bitumen Supply Agreement between Shunkhlai and Gobi Road, an indirect wholly-owned subsidiary of the Company, whereby Shunkhlai agreed to supply Gobi Road with 4,500 tonnes of bitumen for construction of the paved road between UHG and BN mines for a period commencing from 3 April 2012 to 30 June 2012 for a total consideration of MNT7,218,283,486 (equivalent to approximately US\$5,483,518);
- (6) Naimdai Electrical Power Supply System Agreement between MCS International and UHG Water Supply, an indirect wholly-owned subsidiary of the Company, whereby MCS International agreed to provide UHG Water Supply with services including i) 38.5 kilometers of 35kV double circuit overhead power line; ii) 40.2 kilometers of 10kV overhead power line; iii) 1 set of 10kV substation with 2x630 kVA step up transformer; iv) 4 sets of 10kV substation with 1x630 kVA transformer; v) 1 set of 100kVA 10/0.4kV substation; vi) 18 sets of 63kVA 10/0.4kV complete substation; and vii) 1000 meters of 10kV power cable, for a period commencing from 3 April 2012 to 31 March 2013 for a total consideration of MNT8,381,584,566 (equivalent to approximately US\$6,367,243). MCS International will subcontract certain of its obligations under the Naimdai Electrical Power Supply System Agreement to Erchim Suljee, a subsidiary of MCS International which is a wholly-owned subsidiary of MCS Holding; and
- (7) Engineering Procurement Agreement for High Voltage Substation between MCS International and United Power, an indirect wholly-owned subsidiary of the Company, whereby MCS International agreed to provide United Power with services such as, high voltage 110/35/10kV main substation expansion, for a period commencing from 3 April 2012 to 15 September 2012 for a total consideration of MNT2,461,013,000 (equivalent to approximately US\$1,869,559).

## **LISTING RULES IMPLICATIONS**

Each of MCS Electronics, MCS International and MCS Property is a subsidiary of MCS Holding which is in turn wholly-owned and controlled by MCS (Mongolia) Limited which indirectly owns a 100% shareholding interest in MCS Mining Group Limited, a substantial Shareholder. Therefore, MCS Holding and its subsidiaries are considered as associates of MCS Mining Group Limited, a substantial Shareholder. Shunkhlai is an associate of Mr. Batsaikhan Purev, a non-executive Director. As such, each of MCS Electronics, MCS International, MCS Property and Shunkhlai is a connected person of the Company within the meaning of the Listing Rules.

Accordingly, the transactions contemplated under the Master Agreement for ICT Services and Supply and the Amendment to the Power and Heat Generation, Distribution and Management Agreement constitute continuing connected transactions of the Company. As the applicable percentage ratios of each of (i) the proposed annual cap under the Master Agreement for ICT Services and Supply, when aggregated with transactions of the Group of similar nature during the past 12 months, and (ii) the proposed annual cap under the Amendment to the Power and Heat Generation, Distribution and Management Agreement, are less than 5%, pursuant to Rule 14A.34 of the Listing Rules, the transactions contemplated in the continuing connected transactions are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The transactions contemplated under the EPCM Service Agreement for New School, Kindergarten and Dormitory Complex, the EPCM Service Agreement for Mining Equipment Workshop II, the Bitumen Supply Agreement, the Naimdai Electrical Power Supply System Agreement and the Engineering and Procurement Contract for High Voltage Substation are one off transactions in the provision of services and constitute connected transactions of the Company. As the applicable percentage ratios of each of these transactions, save for the Naimdai Electrical Power Supply System and the Engineering and Procurement Contract for High Voltages Substation, which are aggregated, are less than 5%, pursuant to Rule 14A.32 of the Listing Rules, the transactions contemplated under the these agreements are subject to the reporting, announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **1. THE MASTER AGREEMENT FOR ICT SERVICES AND SUPPLY**

**Date:**

3 April 2012

**Parties:**

The Company, representing the Group as service purchasers

MCS Electronics as service provider

**Principal terms:**

MCS Electronics agreed to provide the following services to the Group on a day-to-day basis:

- Internet connection services;
- Iridium and satellite internet services for UB head quarter and camp sites located at UHG, the Group's BN coal deposit located in the Khankhongor soum, Umnugobi aimag and the Group's Tsagaan Khad camp at the Tsagaan Khad port which is located at the Mongolia-China border;
- Intranet services;
- IT equipment and server rent services;
- Fiber optic line rent and maintenance services;
- IP line rent services;
- Services for the maintenance of sure clock system for registration of attendance of employees;
- Services for the maintenance of reliable operations of a computer program in relation to finance and accounting;
- Services for maintenance of GPS system installed with coal hauling trucks;
- Supply of laptops, computers, printers, copiers, projectors, UPS, monitors, flash discs, external HDD, camera (Digital Video/Photo), CCTV, Kenwood radio (Hand device), tetra radio, servers storage, RFID (Reader for weigh bridges), video conference set and other IT hardware; and
- Fiber optic network installation in the areas between UHG mine to BN mine, UHG camp to Tavan Tolgoi airport, inside of UHG mine site including CHPP, water supply facilities, power plant and Transgobi's office, and 50 kilometers far away boreholes in Naimdain Khundii and any additional site/area, to the Group.

MCS Electronics will subcontract certain of its obligations under the Master Agreement for ICT Services and Supply to MCS Holding, Skynetworks and Orbitnet.

The transactions under the agreement will be completed on 31 December 2014.

**Consideration and payment terms:**

Total consideration payable by the Group to MCS Electronics under the Master Agreement for ICT Services and Supply is MNT14,583,916,165 (equivalent to approximately US\$11,078,972) inclusive of VAT, other applicable taxes and all other costs associated with the services provided by MCS Electronics.

The service and supply fee will be paid to MCS Electronics and its sub-contractors on a monthly basis upon receipt of the invoice for completed service and supply during previous months and confirmation of the payment claim by both parties. As for the payment of fiber optic installation service, the Group will pay advance payment equal to 30% of ordered work amount prior commencement of the service. After final acceptance of fiber optic installation service by the Group, an interim payment equal to 60% of such work amount will be paid to MCS Electronics and payment equal to 10% shall be with-held as a retention for 1 (one) year by the Group.

The consideration was determined on an arm’s length basis between the Group and MCS Electronics.

**Proposed annual caps:**

The following tables set out the proposed annual caps for the Master Agreement for ICT Services and Supply for the three financial years ending 31 December 2014:

<b>Financial year ending</b>	<b>Proposed annual caps</b>	<b>Period covered</b>
31 December 2012	MNT4,948,050,068 (equivalent to approximately US\$3,758,888)	9 months from 3 April 2012 to 31 December 2012
31 December 2013	MNT4,843,523,888 (equivalent to approximately US\$3,679,483)	12 months from 1 January 2013 to 31 December 2013
31 December 2014	MNT4,792,342,208 (equivalent to approximately US\$3,640,602)	12 months from 1 January 2014 to 31 December 2014

**Reasons for the transactions:**

The Group had obtained intranet and internet connection services, including iridium and satellite internet and IP line, fiber optic line, IT equipment and server rent services, from the MCS Group during the past three years and those companies provided high quality services to the Group.

At the time of the first selection of the internet provider and other IT services, the Group approached MCS Electronics given its vast experience, large market share and the ability to provide highest level of information security. MCS Electronics had supported the development of the UHG mine site since 2009 before the Company was listed on the Stock Exchange. With MCS Electronics, the Company has invested into the extensive networks and services at the UHG mine site and the surrounding areas. The Company is fully satisfied with the services provided by MCS Electronics and its affiliates up to date; therefore, there was no need to look into bringing other vendors. If the Group obtains such services from different network vendors now, whole connection needs to be replaced that results in waste of previous investments.

In relation to the services for the maintenance of time and attendance system used for registration of employees and the services for the maintenance of operations of computer programs and systems, there are no alternative suppliers who are able to provide maintenance services in relation to the particular systems and programs adopted by the Company. Although there are suppliers who provide maintenance services in relation to other registration systems and computer programs and systems that serve similar functions, the engagement of such suppliers would require the Company to replace the current systems and programs. The Company does not consider the incurrence of the additional replacement costs to be in the best interests of the Company and the Shareholders as a whole.

The Mongolian custom office requires all vehicles carrying on coal transportation in Mongolia to have installed GPS systems with a certain display showing the location, fuel volume and engine performance of the vehicle. To facilitate the Mongolian custom office's monitoring of the vehicles, all coal transportation vehicles operating in Mongolia have installed a particular GPS system supplied by MCS Electronics. Although there are suppliers who provide maintenance services in relation to other GPS systems that serve similar functions, the engagement of such suppliers would require the Company to replace all GPS systems installed on the Company's vehicles. The Company does not consider the incurrence of the additional replacement costs to be in the best interests of the Company and the Shareholders as a whole.

For day to day business conduct purpose, the Company is required to purchase laptop, computer, printer and other IT hardware and additional fiber optic network installation at the mine site area. In order to obtain the best products and services at the competitive market rate, the Company undertook the tender process with two lots which were Lot 1 – Hardware supply and Lot 2 – Fiber optic installation. Also, the Company indicated in the tender documents that more than one provider will be selected. This has been done in order not to have dependency from a single supplier and have diversification of risks.

For Lot 1 – IT hardware, the Company invited 6 leading companies in the IT hardware sales and service industry with the best experiences and financial capacities. For Lot 2 – Fiber optic installation, the Company invited 4 leading network cabling companies in the industry with the best experience and financial capacities.

As indicated above, the Company accepts multi suppliers to this tender in order to optimize resources, to have shorter supply time, to minimize risk of late completion and to minimize dependency on one supplier. Based on the bids received for each Lot, the Company has decided to enter into supplier agreements with the most responsive bidders. MCS Electronics was one of the most responsive bidders for each Lots, therefore, the Company has decided to enter into agreement with MCS Electronics for IT Hardware and Fiber Optic Installation work. The Company will also accept the second most responsive bidder, each being a company not connected with the Company, for Lot 1 and Lot 2. Agreements under Lot 1 and 2 will be agreed based on unit price offer for each item of lots and total value will not be granted to any of the primary and secondary contractors.

## **2. ENGINEERING PROCUREMENT AND CONSTRUCTION MANAGEMENT SERVICE AGREEMENT FOR NEW SCHOOL, KINDERGARTEN AND DORMITORY COMPLEX**

### **Date:**

3 April 2012

### **Parties:**

Energy Resources, an indirect wholly-owned subsidiary of the Company, as principal

MCS Property as contractor

### **Principal terms:**

MCS Property agreed to provide EPCM services for new school, kindergarten and dormitory complex in Tsogtsetsii soum of Umnugobi province, Mongolia. In performing such EPCM services, MCS Property will implement the engineering and procurement, coordinate and manage construction and pre-commissioning activities of construction contractors and administer such contracts with other contractors as may be authorized by the Energy Resources in connection with development of the new school, kindergarten and dormitory complex.

The provision of the EPCM services is expected to be completed by 31 December 2012.

### **Consideration and payment terms:**

Total consideration payable by Energy Resources to MCS Property under this agreement is MNT3,166,735,887 (equivalent to approximately US\$2,405,676) inclusive of VAT, other applicable taxes and all other costs associated with the EPCM services that will be provided by MCS Property. The consideration payable to MCS Property was determined by tender proposal submitted by MCS Property for EPCM service for new school, kindergarten and dormitory.

Energy Resources shall make advance payment of 10% of the contract amount within 30 calendar days after signing the agreement. Interim payments will be made on monthly basis within first 10 working days of next month based on actual work completion percentage indicated in the monthly progress report issued by MCS Property. 10% retention shall be with-held from each interim payment. Upon completion of the EPCM Service and state commissioning of the construction, 10% retention will be returned to the contractor. If MCS Property wishes, they can substitute retention money with a performance guarantee.

### **Reasons for the transaction:**

In order to effectively manage the growing pressure on social services resulting from population influx to Tsogtsetsii soum and to provide quality education services for the children of its employees who have resettled in Umnugobi province, Energy Resources has agreed to build a new school, kindergarten and dormitory complex as part of its corporate social responsibility activities. All in all, the educational establishment serves to enhance access to education for both the local young people and children of the Company's employees.

Selection of the contractor for the provision of the EPCM services for building of new school, kindergarten and dormitory complex in Tsogttsetsii soum has been undertaken through the bidding process in order to establish competitive pricing and to get the best professional services. The Company invited 3 construction management companies that have experiences in construction work in the named area and proven good performance in past to tender their bids.

MCS Property offered the lowest total project cost package for the construction and management of the new school, kindergarten and dormitory complex even though the engineering and management portion of the total costs was higher compared to the other bidders. One of the key factors that allowed for much lower construction cost of the MCS Property bid is the fact that MCS Property owns and operates its own concrete batch plant located in Tsogttsetsii soum. In addition, MCS Property had proposed to complete the complex earlier than the rest of the bidders, which was another very important selection criterion.

MCS Property is one of the leading construction management and property development firms in Mongolia, as well as carries out full-scale construction project management in provision of construction engineering, construction design and consulting service. MCS Property worked with the Company since the beginning of the UHG mine site development and the up to date performance in terms of construction quality, completion time of the projects and compliance to the Company safety standards has been outstanding.

### **3. ENGINEERING PROCUREMENT AND CONSTRUCTION MANAGEMENT SERVICE AGREEMENT FOR MINING EQUIPMENT WORKSHOP II**

**Date:**

3 April 2012

**Parties:**

Energy Resources Mining, an indirect wholly-owned subsidiary of the Company, as principal

MCS Property as contractor

**Principal terms:**

MCS Property agreed to provide EPCM services for mining equipment workshop II in the UHG mine site, located in Tsogttsetsii soum of Umnugobi province, Mongolia. In performing the EPCM services, MCS Property will implement the engineering, procurement, coordinate and manage construction and pre-commissioning activities of construction contractors and administer such contracts with other contractors as may be authorized by Energy Resources Mining in connection with the development of the mining equipment workshop II. Additionally, in order to save construction time period of workshop, MCS Property will execute some parts of the construction work such as floor hardening, concrete work of overhead slab and platform.

The provision of the EPCM services is expected to be completed by 1 September 2012.

## **Consideration and payment terms:**

Total consideration payable by Energy Resources Mining to MCS Property under this agreement is MNT7,345,947,105 (equivalent to approximately US\$5,580,500) inclusive of VAT, other applicable taxes and all other costs associated with the EPCM services that will be provided by MCS Property. The consideration payable to MCS Property was determined by tender proposal submitted by MCS Property for EPCM service for the mining equipment workshop II.

Energy Resources Mining will make advance payment of 40% of the contract amount within 30 calendar days after signing the agreement. Interim payments will be made on monthly basis within first 10 working days of next month based on actual work completion percentage indicated in the monthly progress report issued by MCS Property. 5% retention shall be with-held from each interim payment. Upon completion of the EPCM service and state commissioning of the construction, 5% retention will be returned to the contractor. If MCS Property wishes, they can substitute retention money with a performance guarantee.

## **Reasons for the transaction:**

MCS Property is one of the leading construction management and property development firms in Mongolia, as well as carries out full-scale construction project management in provision of construction engineering, construction design and consulting service.

In order to enlarge and improve the current workshop in the UHG mining site, we have organized and conducted a competitive tendering and selection process for selection of a supplier for provision of EPCM service for construction of mining equipment workshop II. The workshop is to be built as part of further development of the mining site and improvement of the maintenance and uninterrupted operations of the mining heavy equipment.

The mining equipment workshop II is intended to be designed and constructed as the most modern and advanced mining workshop facility in Mongolian mining sector today. The facility will have the technologically advanced repairing equipment, washing system, oil distribution system, exhausting system and compressed air system. The facility will provide approximately 4,332m<sup>2</sup> and will include the followings:

- Welding Bay
- Washing Bay
- Pump room
- Water treatment and water reserve room
- Office
- Storage area

Key information for the mining equipment workshop II:

- Project situated on a 8 hectare piece of land
- 4,332m<sup>2</sup> Workshop (approximately)
- Structure: Steel structure
- Exterior I material to be sandwich panel
- Workshop building to have 50 tonnes overhead crane
- Workshop building to have 18 overhead rolling doors
- Workshop building to be able 7 heavy trucks at the same time
- The facility is intended to be fully commissioned in the beginning of June 2012

The invitations for tender bids were sent to 3 service providers having special experiences in steel structure construction work, which requires special skills of workers and high knowledge from engineers. Based on the bids received, MCS Property submitted the lowest priced bid for the total cost required for the construction of the mining equipment workshop II. The key factor that allowed for much lower construction cost of the MCS Property bid is the fact that MCS Property owns and operates its own concrete batch plant located in Tsogtsetsii soum. In addition, the up to date performance of MCS Property in terms of quality, completion time of the projects and compliance to the Company safety standards has been outstanding. Given the above reasons, the tender evaluation committee evaluated the MCS Property's proposal to be the most favorable proposal.

#### **4. AMENDMENT TO THE POWER AND HEAT GENERATION, DISTRIBUTION AND MANAGEMENT AGREEMENT DATED 9 MAY 2011**

**Date:**

3 April 2012

**Parties:**

Energy Resources, an indirect wholly-owned subsidiary of the Company, as principal

MCS International as contractor

**Principal terms:**

Energy Resources entered into the Power and Heat Generation, Distribution and Management Agreement with MCS International on 9 May 2011 to provide the following service:

- Operation management of the UHG Power Plant including the daily power plant operation management, human resources management, routing and planned maintenance management, procurement and transportation management of the maintenance goods for the power plant;

- Electricity distribution services including daily inspection, maintenance, routine maintenance and dispatching work of the 10kV, 35kV Transmission lines and substations, transformers located nearby the UHG site, operation of 12.5 megawatts diesel power generators, services and maintenance, and procurement, transportation management of maintenance goods.
- Heat distribution services including the daily management of boiler houses, heat distribution pipelines including the pump stations and CHPP internal heating system, management of routine and planned maintenance of those heating system, procurement and transportation management of the necessary maintenance goods.

Upon mutual agreement of parties, MCS International agreed to extend the provisions of the above services to Energy Resources.

### **Consideration and payment terms:**

Total consideration payable by Energy Resources to MCS International under this amendment agreement is MNT62,835,778,173 (equivalent to approximately US\$47,734,494), inclusive of VAT, other applicable taxes in Mongolia and all other costs. The consideration will cover labor 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.

Energy Resources will be responsible for the costs of all supplies of fuel, coal, 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 service fees will be paid to MCS International monthly upon receipt of the invoice of the MCS International and confirmation of the payment claim by both parties.

### **Proposed annual caps:**

The following table sets out the proposed annual caps for the three financial years ending 31 December 2014 including the extension:

<b>Financial year ending</b>	<b>Proposed annual caps</b>	<b>Period covered</b>
31 December 2012	MNT16,809,119,750 (equivalent to approximately US\$12,769,394)	12 months from 1 January 2012 to 31 December 2012
31 December 2013	MNT22,202,816,264 (equivalent to approximately US\$16,866,827)	12 months from 1 January 2013 to 31 December 2013
31 December 2014	MNT23,823,842,159 (equivalent to approximately US\$18,098,273)	12 months from 1 January 2014 to 31 December 2014

**Reasons for the transaction:**

The Power and Heat Generation, Distribution and Management Agreement inclusive of UHG Power Plant operation, electricity distribution services and heat distribution services is coming to end in November 2012. Due to importance of the continuity of this activity, Energy Resources is required to engage MCS International for another 3 years followed by the end date of the main contract.

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.

Energy Resources has conducted study to identify the potential suppliers of these services and received the list of the license holding companies by the letter Ref. No. 01 from the Umnugovi province Energy Regulatory Board dated on 9 February 2012 and official letter Ref. No. 4/566 issued by the Mongolian Energy Regulatory Authority on 6 December 2011 in response of the Company's inquiry.

The list includes 91 companies and majority of them are local diesel stations or small sized companies responsible for heating boilers in the local soum areas with shortage of professional labor forces, machines, equipment and no experience to fulfill the Company's requirement.

As the running of both the power and heat generation and distribution businesses require companies to be granted with special license issued by the Government of Mongolia, only 5 companies have been identified which are capable of running the Company's requested services.

Among the 5 companies, MCS International expressed its interest to extend the contract for current operation activities such as power and heat generation, distribution and management.

During the period of the Power and Heat Generation, Distribution and Management Agreement, MCS International conducted the UHG Power Plant commission successfully and resulted in reaching the rated capacity of the main equipment. MCS International is continuing to execute the requested operation services to the highest standards aiming to no interruption of power and heat supply, non-accident safe operations and cost savings which will be evaluated based on key performance indicators agreed by both parties.

Since the Power and Heat Generation, Distribution and Management Agreement was put in place in 2011, there have been several new facilities constructed and going to be constructed in 2012 that require having power and heat services provided, such as the new heating boilers, 50 kilometers water system expansion which requires extensive power lines constructed along the pipes, etc. Given the above current and planned expansion of the Company's managed assets, MCS International's current scope will be expanded. This will result in additional manpower and associated cost increase.

In consideration of the extensive experience and outstanding performance of MCS International, Enerco LLC and Erchim Suljee, the Directors believe that it is in the best interests of the Company to extend the existing Power and Heat Generation, Distribution and Management Agreement with MCS International to ensure that the services provided are of the highest quality and professional level.

## **5. BITUMEN SUPPLY AGREEMENT**

### **Date:**

3 April 2012

### **Parties:**

Gobi Road, an indirect wholly-owned subsidiary of the Company, as purchaser

Shunkhlai as supplier

### **Principal terms:**

Shunkhlai agreed to supply 4,500 tonnes of bitumen which meet the required technical specification to Gobi Road for construction of the paved road between BN and UHG mines of the Group. The transaction under the agreement will be completed on 30 June 2012.

### **Consideration and payment terms:**

Total consideration payable by Gobi Road to Shunkhlai under this agreement is MNT7,218,283,486 (equivalent to approximately US\$5,483,518) inclusive of VAT, other applicable taxes and all other costs associated with supply of bitumen.

The parties agreed and fixed the unit price for 3,400 tonnes of bitumen at MNT1,453,725 (equivalent to approximately US\$1,104). The unit price for the remaining 1,100 tonnes of bitumen will be determined by reference to market rate.

The payment shall be paid to Shunkhlai within 7-10 working days after receipt of an invoice issued by Shunkhlai in accordance with the following schedule:

- (a) Advance payment: amount equal to 70% of the total consideration will be paid after execution of the agreement;
- (b) 30% of the total consideration will be paid after the completion date of supply on the basis of completion report approved and accepted by the parties;
- (c) Performance guarantee: supplier shall submit bank guarantee, in undisputable, irrevocable and unconditional form equal to 10% of the total consideration to the purchaser within 5 working days after the contract signing. If bank guarantee is not received by the specified period, the supplier shall deduct the amount from the payment.

### **Reasons for the transaction:**

Gobi Road had invited some of the potential bitumen importers and suppliers in Mongolia for a proposal on the bitumen supply of BN-UHG paved road project.

Among the proposals received, although Shunkhlai only submitted a proposal with the third lowest evaluated price, it was evaluated to be the most favourable proposal in terms of previous collaboration, payment term and good bitumen supply which provides the technical specification required by Gobi Road. Shunkhlai supplied approximately 7,100 tonnes of bitumen from 2010-2011 for UHG-Gashuun Sukhait paved road project on schedule. They carried out the order professionally and swiftly with regular monitoring and reporting of each shipment. Submitted certificate of origin and lab test results comply with the technical specifications requirements.

## **6. NAIMDAI ELECTRICAL POWER SUPPLY SYSTEM AGREEMENT**

### **Date:**

3 April 2012

### **Parties:**

UHG Water Supply, an indirect wholly-owned subsidiary of the Company, as principal

MCS International as contractor

### **Principal terms:**

MCS International agreed to provide services including i) 38.5 kilometers of 35kV double circuit overhead power line; ii) 40.2 kilometers of 10kV overhead power line; iii) 1 set of 10kV substation with 2x630 kVA step up transformer; iv) 4 sets of 10kV substation with 1x630 kVA transformer; v) 1 set of 100kVA 10/0.4kV substation; vi) 18 sets of 63kVA 10/0.4kV complete substation; and vii) 1,000 meters of 10kV power cable, to UHG Water Supply. Transformers, complete substations and switchgears supply work and design works are excluded.

MCS International will subcontract certain of its obligations under the Naimdai Electrical Power Supply System Agreement to Erchim Suljee.

The transaction under the agreement will be completed on 31 March 2013.

### **Consideration and payment terms:**

Total consideration payable by United Power to MCS International under this agreement is MNT8,381,584,566 (equivalent to approximately US\$6,367,243) inclusive of VAT, other applicable taxes and all other costs associated with the services provided by MCS International.

20% of the accepted value on acceptance of the agreement;

40% of the accepted value on main equipment delivery at the site;

35% of the accepted value on mechanical completion; and

5% of the accepted value on completion of whole of the works and issue of taking over certificate and completion of outstanding work.

**Reasons for the transaction:**

UHG Water Supply organized and conducted a competitive tendering and selection process for selection of a supplier of electrical power and that invitations for tender bids were sent to 5 electrical power suppliers and bids were submitted by 3 electrical power suppliers.

The evaluation of the bids on the tender criteria were work experience and special permission and according to the evaluation procedure, MCS International was determined to be the successful bidder which offered the best proposal with the lowest bid price.

Based on the water demand for CHPP expansion modules, the company did additional survey and planning to construct the additional water supply system on the existing 115 liter per second capacity up to 215 liter per second. The power supply of this additional system requires 10 and 35kV transmission line and substations accordingly.

**7. ENGINEERING PROCUREMENT AGREEMENT FOR HIGH VOLTAGE SUBSTATION**

**Date:**

3 April 2012

**Parties:**

United Power, an indirect wholly-owned subsidiary of the Company, as principal

MCS International as contractor

**Principal terms:**

MCS International agreed to provide services including High voltage 110/35/10kV main substation expansion, to United Power.

UHG 110/35/10 kV Main substations 110kV switch yard construction shall be included: Design, procurement, construction and commissioning of 2 pieces of outgoing feeder, 2 pieces of incoming feeder and 1 piece of section feeder, total of 5 pieces of 110kV switch yard.

MCS International will sub-contract certain of its obligations under this agreement to its subsidiary Erchim Suljee.

The transaction under the agreement will be completed by 15 September 2012.

**Consideration and payment terms:**

Total consideration payable to MCS International under this agreement is MNT 2,461,013,000 (approximately to US\$1,869,559 inclusive of VAT, other applicable taxes and all other costs associated with the services provided by MCS International.

20% of the accepted value on acceptance of the agreement;

40% of the accepted value on main equipment delivery at the site;

35% of the accepted value on mechanical completion; and

5% of the accepted value on completion of whole of the works and issue of taking over certificate and completion of outstanding work.

**Reasons for the transaction:**

United Power organized and conducted a competitive tendering and selection process for selection of engineering and procurement service for the construction of high voltage substation and the invitations for proposals were sent to 5 electrical power suppliers and bids were submitted by 3 electrical power suppliers.

According to the tender evaluation, MCS International offered the best evaluated proposal with the lowest bid price, strong previous work experience and highly qualified engineering capacity.

The existing main substation distributes from 10kV amplification to 35kV electricity and substation extension of 110 kV side will give the ability to connect to central energy system by 110kV line, which is expected by the end of this year. The connection with central energy system gives us more flexibility in the operation of the UHG Power Plant and stable operation in the long term.

Previously, we have obtained services of MCS International for the UHG Power Plant, electricity, heating automation system, design, construction and commissioning of transmission and distribution lines, substations, energy savings equipment and technologies.

**INFORMATION ON THE GROUP**

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 mine.

Energy Resources Mining, an indirect wholly-owned subsidiary of the Company, is principally engaged in mining and technical operations of the UHG deposit.

Gobi Road, an indirect wholly-owned subsidiary of the Company, is principally engaged in construction, operation and management of a paved road project of the Company.

UHG Water Supply, an indirect wholly-owned subsidiary of the Company, is principally engaged in water exploration and supply of water to the UHG mine.

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

## **INFORMATION ON MCS HOLDING, MCS ELECTRONICS, MCS PROPERTY, MCS INTERNATIONAL, SKYNETWORKS, ORBITNET, UNIVISION, ERCHIM SULJEE AND SHUNKHLAI**

MCS Holding is an investment holding company and which is an associate of MCS Mining Group Limited, a substantial Shareholder.

MCS Electronics, a non-wholly-owned subsidiary of MCS Holding, is principally engaged in trading, distribution and leasing of office equipment and provision of information technology solution.

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

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

Skynetworks, a non-wholly-owned subsidiary of MCS Holding, is principally engaged in telecommunications services.

Orbitnet, a non-wholly-owned subsidiary of MCS Electronics, is principally engaged in providing data transmission services.

Univision, a non-wholly-owned subsidiary of MCS Holding, is principally engaged in providing hi-speed internet services.

Erchim Suljee, a wholly-owned subsidiary of MCS International, is principally engaged in providing electricity distribution services.

Shunkhlai, an associate of Mr. Batsaikhan Purev, a non-executive Director, is principally engaged in import and supply of petroleum products in Mongolia.

## **LISTING RULES IMPLICATIONS**

Each of MCS Electronics, MCS International and MCS Property is a subsidiary of MCS Holding which is in turn wholly-owned and controlled by MCS (Mongolia) Limited which indirectly owns a 100% shareholding interest in MCS Mining Group Limited, a substantial Shareholder. Therefore, MCS Holding and its subsidiaries are considered as associates of MCS Mining Group Limited, a substantial Shareholder. Shunkhlai is an associate of Mr. Batsaikhan Purev, a non-executive Director. As such, each of MCS Electronics, MCS International, MCS Property and Shunkhlai is a connected person of the Company within the meaning of the Listing Rules.

Accordingly, the transactions contemplated under the Master Agreement for ICT Services and Supply and the Amendment to the Power and Heat Generation, Distribution and Management Agreement constitute continuing connected transactions of the Company. As the applicable percentage ratios of each of (i) the proposed annual cap under the Master Agreement for ICT Services and Supply, when aggregated with transactions of the Group of similar nature during the past 12 months, and (ii) the proposed annual cap under the Amendment to the Power and Heat Generation, Distribution and Management Agreement, are less than 5%, pursuant to Rule 14A.34 of the Listing Rules, the transactions contemplated in the continuing connected transactions are 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 EPCM service Agreement for New School, Kindergarten and Dormitory Complex, the EPCM Service Agreement for Mining Equipment Workshop II, the Bitumen Supply Agreement, and the Naimdai Electrical Power Supply System Agreement when aggregated with the Engineering Procurement Contract for High Voltage Substation are less than 5%, pursuant to Rule 14A.32 of the Listing Rules, the transactions contemplated under those agreements are subject to the reporting, 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 Ms. Enkhtuvshin Gombo, being a Director and a director of MCS Holding, has abstained from voting on the relevant resolutions of the Board for approval of the agreements with MCS Electronics, MCS International and MCS Property. Mr. Batsaikhan Purev, being a Director and a General Director of Shunkhlai, has abstained from voting on the relevant resolutions of the Board for approval of the Bitumen Supply Agreement.

## **DEFINITION**

“associates”	having the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“CCTV”	Closed Circuit Television;
“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;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	director(s) of the Company;
“Energy Resources”	Energy Resources LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company;
“Energy Resources Mining”	Energy Resources Mining LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company;
“Erchim Suljee”	Erchim Suljee LLC, a company incorporated in Mongolia with limited liability, is a subsidiary of MCS International which is a wholly-owned subsidiary of MCS Holding;
“Gobi Road”	Gobi Road LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company;
“GPS”	Global Positioning System;

“Group”	the Company and its subsidiaries;
“HDD”	Hard Disk Drive;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“IP”	Internet Protocol;
“IT”	means information technology;
“ICT”	means information and communication technology;
“kV”	means kilovolt;
“kVA”	means kilovolt-ampere;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“MCS Electronics”	MCS Electronics LLC, a company incorporated in Mongolia with limited liability, is in turn wholly owned by MCS (Mongolia) Limited which indirectly owns 100% shareholding interest in MCS Mining Group Limited, a substantial Shareholder;
“MCS Holding”	MCS Holding LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of MCS (Mongolia) Limited;
“MCS Group”	MCS Holding and its subsidiaries;
“MCS International	MCS International LLC, a company incorporated in Mongolia with limited liability, is a subsidiary of MCS Holding which is in turn wholly owned by MCS (Mongolia) Limited which indirectly owns 100% shareholding interest in MCS Mining Group Limited, a substantial Shareholder;
“MCS Mining Group Limited”	MCS Mining Group Limited, a company incorporated in the British Virgin Islands with limited liability, is a substantial Shareholder and an indirect wholly-owned subsidiary of MCS (Mongolia) Limited;
“MCS (Mongolia) Limited”	MCS (Mongolia) Limited, a company incorporated in the British Virgin Islands which indirect owns a 100% shareholding interest in both MCS Mining Group Limited, a substantial Shareholder, and MCS Holding;

“MCS Property”	MCS Property LLC, a company incorporated in Mongolia with limited liability, is a subsidiary of MCS Holding which is in turn wholly owned by MCS (Mongolia) Limited which indirectly owns 100% shareholding interest in MCS Mining Group Limited, a substantial Shareholder;
“MNT”	togrog, the lawful currency of Mongolia;
“m <sup>2</sup> ”	square meter;
“Orbitnet”	Orbitnet LLC, a company incorporated in Mongolia with limited liability, is a wholly-owned subsidiary of MCS Electronics which is a subsidiary of MCS Holding;
“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, details of which are disclosed in the announcement of the Company dated 9 May 2011;
“Skynetworks”	Skynetworks LLC, a company incorporated in Mongolia with limited liability, is a non-wholly-owned subsidiary of MCS Holding;
“Share(s)”	ordinary share(s) of US\$0.01 each in the share capital of the Company;
“Shareholder(s)”	the registered holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Shunkhlai”	Shunkhlai LLC, a company incorporated in Mongolia with limited liability, is an associate of Mr. Batsaikhan Purev, a non-executive Director;
“Substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“Transgobi”	Transgobi LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company;
“UB”	Ulaanbaatar, a capital city of Mongolia;
“UHG mine”	the Group’s Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield;
“UHG Power Plant”	A 18 megawatt power plant at the UHG mine;
“UHG Water Supply”	Ukhaa Khudag Water Supply LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company;

“United Power”	United Power LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company;
“Univision”	Univision LLC, a company incorporated in Mongolia with limited liability, a subsidiary of Unitel LLC which is a wholly-owned subsidiary of MCS Holding;
“UPS”	Uninterrupted Power Supply;
“US\$”	United States Dollar, the lawful currency of the United States of America;
“VAT”	value added tax; and
“%”	percent.

For the purpose of this announcement, unless otherwise indicated, the exchange rate of US\$1.00=MNT1,316.36, 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, 3 April 2012

*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 Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.*