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MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 975)

CONTINUING CONNECTED TRANSACTION

On 28 March 2018, Energy Resources, an indirectly wholly-owned subsidiary of the Company, entered into the Agreement with MCS International whereby MCS International agreed to provide services including (i) UHG Power Plant and electricity distribution facilities operation and maintenance; (ii) heating facilities operation and maintenance; (iii) diesel generators operation and maintenance; and (iv) supply of electricity and heating to end customers and contractors of the Group and billing for the consumption to the Group, from 1 April 2018 to 31 March 2021 for a total consideration of MNT85,953,288,960 (equivalent to approximately US\$35,893,434).

LISTING RULES IMPLICATIONS

MCS International is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC, which indirectly owns a 100% shareholding interest in MCS Mining Group, a substantial Shareholder holding approximately 31.43% of the issued share capital of the Company as at the date of this announcement. As such, MCS International is a connected person of the Company within the meaning of the Listing Rules and the transactions contemplated under the Agreement constitute continuing connected transactions of the Company.

As the applicable percentage ratios for the annual caps for the continuing connected transactions under the Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Agreement are subject to the reporting and announcement requirements, but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

POWER SYSTEM OPERATION AND MAINTENANCE AGREEMENT

Date:

28 March 2018

Parties:

Energy Resources as Employer

MCS International as Contractor

Principal terms:

In broad terms, MCS International agreed to provide the following services to the Group during the term of the Agreement:

- UHG Power Plant and electricity distribution facilities operation and maintenance;
- heating facilities operation and maintenance;
- diesel generators operation and maintenance services; and
- supply of electricity and heating to end customers and contractors of the Group and billing for the consumption.

The terms and conditions of the Agreement are similar to those provided under the previous Power System Operation and Maintenance Agreement. The scope of services to be provided by MCS International to the Group under the Agreement is essentially the same as those set out in the previous Power System Operation and Maintenance Agreement.

Consideration:

The total consideration payable by the Group to MCS International under the Agreement, which equals to the sum of the annual caps covering the three-year term of the Agreement from 1 April 2018 to 31 March 2021, is MNT85,953,288,960 (equivalent to approximately US\$35,893,434), including VAT, other applicable taxes and all other costs incurred by MCS International in providing the services as set out in the Agreement. The monthly fee consists of variable and fixed charges where fixed charge is determined taking into account fixed costs to be incurred by MCS International such as machineries, equipment, tools and consumables used for maintenance and servicing of facilities, labor costs including salary, transportation, insurance, safety, accommodation and catering for personnel of MCS International, other work related direct expenses, overheads to cover indirect expenses, and a profit margin; whereas variable portion of the monthly fee is determined based on agreed electricity tariff applicable for the electricity produced and covers variable costs related to the production of the electricity such as consumables, chemicals, diesel for internal usage of the power plant, costs of running machineries and equipment, etc. The costs, electricity tariff and profit margin applicable for the services were determined on an arm's length basis between the Group and MCS International, taking into account fixed and variable costs to be incurred by MCS International and the historical transaction amounts for the transactions under the Power System Operation and Maintenance Agreement.

The Group itself will be responsible for the costs of supplies of fuel, coal, water, spare parts, materials, lubricants and equipment mechanism and other supplies required for the operation and overhaul of the UHG Power Plant and other facilities in relation to the performance of services by MCS International under the Agreement as well as property insurance and immovable property taxes.

Payment terms:

The monthly fee will be paid in MNT by the Group on a monthly basis within 60 days upon receipt of valid invoice from MCS International.

Late payment penalty will be incurred on delayed payment calculated from the first delayed date at a rate of 12% per annum.

Historical transaction amount:

Under the Power System Operation and Maintenance Agreement, annual caps for the three years ended 31 December 2017 were MNT26,877,569,129, MNT28,692,727,071, and MNT30,761,850,434 respectively. Transaction amounts (excluding VAT) incurred under the Power System Operation and Maintenance Agreement for the three years ended 31 December 2017 were approximately MNT16,196,949,494, MNT12,003,422,022, and MNT18,617,203,388 respectively.

Annual caps:

The following table sets out the annual caps for the Agreement with MCS International during the Agreement term from 1 April 2018 to 31 March 2021 for the four financial years ending 31 December 2021 respectively:

Financial year ending	Annual caps	Period covered
31 December 2018	MNT21,488,322,240 (equivalent to approximately US\$8,973,359)	9 months from 1 April 2018 to 31 December 2018
31 December 2019	MNT28,651,096,320 (equivalent to approximately US\$11,964,478)	12 months from 1 January 2019 to 31 December 2019
31 December 2020	MNT28,651,096,320 (equivalent to approximately US\$11,964,478)	12 months from 1 January 2020 to 31 December 2020
31 December 2021	MNT7,162,774,080 (equivalent to approximately US\$2,991,120)	3 months from 1 January 2021 to 31 March 2021

The annual caps were determined after taking into account (i) the negotiated fixed and variable charges as described above; (ii) negotiated energy tariff; (iii) anticipated electricity production volume; (iv) VAT and other taxes; and (v) contingencies that would be applicable and payable for the services of MCS International under the Agreement.

Term of the Agreement with MCS International:

The Agreement with MCS International will be effective for a period commencing from 1 April 2018 to 31 March 2021.

Reasons for the transaction:

The Power System Operation and Maintenance Agreement with MCS International expired on 31 December 2017. The Company conducted a new contractor selection and contract negotiation process in October 2017.

In accordance with the Energy Law of Mongolia, only entities that hold special licenses granted by the relevant state agencies of Mongolia can undertake power generation, distribution and supply operations in Mongolia. The Company sent invitations for expression of interest to operate and maintain the power generation, transmission and distribution facilities at the UHG mine site consisting of the UHG Power Plant, overhead distribution lines, heat boilers, heat distribution lines, and diesel generators to all service providers that hold the required licenses and have the relevant expertise. Only MCS International, the current contractor, has expressed its interest in providing such services, and other service providers responded to the invitation indicating that they are not able to provide the requested services mainly due to the lack of personnel, technical and financial capabilities or other planned activities.

As MCS International is the only company that expressed interest and qualified in providing the requested power system operation and maintenance services, and given its experience and its performance under the Power System Operation and Maintenance Agreement, the Company negotiated the Agreement with MCS International.

INFORMATION ON THE GROUP

The Group is principally engaged in open-pit mining and sale of coking coal in Mongolia, as well as the transportation, export and sale of resulting premium products into China.

INFORMATION ON THE CONTRACTOR

MCS International, a wholly-owned subsidiary of MCS Holding LLC, is principally engaged in project management, design, engineering, operation and maintenance of power plant, electricity and thermal energy distribution facilities, and supply of electricity and thermal energy.

LISTING RULES IMPLICATIONS

MCS International is a wholly-owned subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS Mongolia LLC, which indirectly owns a 100% shareholding interest in MCS Mining Group, a substantial Shareholder holding approximately 31.43% of the issued share capital of the Company as at the date of this announcement. As such, MCS International is a connected person of the Company within the meaning of the Listing Rules and the transactions contemplated under the Agreement constitute continuing connected transactions of the Company.

As the applicable percentage ratios for the annual caps for the continuing connected transactions under the Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Agreement are subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Each of Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts, Ms. Enkhuvshin Gombo, Mr. Enkhuvshin Dashtseren, being a Director and a director of MCS Mining Group, has material interests in the transactions contemplated under the Agreement and has abstained from voting on the relevant resolutions of the Board in relation to the approval of the Agreement and the relevant annual caps.

The Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions contemplated under the Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Group and on terms that are fair and reasonable. The continuing connected transactions contemplated under the Agreement are in the interests of the Company and its Shareholders as a whole. In addition, the Directors (including the independent non-executive Directors) are of the view that the annual caps for the continuing connected transactions contemplated under the Agreement are fair and reasonable.

DEFINITIONS

“Agreement”	Power System Operation and Maintenance Agreement entered into between Energy Resources and MCS International dated 28 March 2018;
“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;
“connected person”	has the same 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;
“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 Mining Group”	MCS Mining Group Limited, a company incorporated in the British Virgin Islands with limited liability, is a substantial Shareholder;
“MNT”	togrok or tugrik, the lawful currency of Mongolia;
“Power System Operation and Maintenance Agreement”	Power system operation and maintenance agreement entered into between MCS International and Energy Resources on 30 December 2014 and expired on 31 December 2017;
“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 Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“UHG”	Ukhaa Khudag;
“UHG mine site”	the Group’s Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield;
“UHG Power Plant”	18 megawatt power plant at UHG mine site;
“US\$”	United States Dollar, the lawful currency of the United States of America;
“VAT”	value added tax;
“%”	per cent.

For the purpose of this announcement, unless otherwise indicated, the exchange rate of US\$1.00=MNT2,394.68, 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, 28 March 2018

As at the date of this announcement, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being the executive Directors, Mr. Od Jambaljamts, Ms. Enkhtuvshin Gombo and Mr. Enkhtuvshin Dashtseren, being the non-executive Directors, and Dr. Khashchuluun Chuluundorj, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.