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MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

REVISION OF ANNUAL CAPS

Reference is made to the announcement of the Company dated 28 December 2016 in relation to, among others, the continuing connected transactions between Energy Resources, a wholly-owned subsidiary of the Company, and USS under the Service Agreement, whereby USS agreed to provide office and camp supporting services to the Group at its site operations at the UHG mine site, BN mine site, TKH site, and offices located in Ulaanbaatar. Unless otherwise defined herein, capitalized terms in this announcement will have the same meanings as those defined in the announcement of the Company dated 28 December 2016.

Based on the reasons mentioned in this announcement, it is anticipated by the Group that there is a need to increase the volume of services being provided under the Service Agreement between USS and Energy Resources for the current financial year ending 31 December 2018 and for the financial year ending 31 December 2019; and therefore, USS and Energy Resources have entered into an amendment agreement dated 14 December 2018 amending the Service Agreement (the “**Amendment Agreement**”) to reflect this arrangement. Accordingly, the Board proposed to increase the annual caps set out in the Service Agreement of MNT11,387,410,017 (then equivalent to approximately USD4,578,810) which is applicable to both of the financial year ending 31 December 2018 and the financial year ending 31 December 2019 (the “**Original Annual Caps**”), to MNT15,188,657,029 (equivalent to approximately USD5,764,196) for the financial year ending 31 December 2018 and MNT21,902,430,966 (equivalent to approximately USD8,312,118) for the financial year ending 31 December 2019 (the “**Revised Annual Caps**”). It is emphasized that no other change to the Services Agreement was proposed by the Board and the remaining terms and conditions of the Service Agreement will remain in force and effective.

USS is a wholly-owned subsidiary of MCS Holding which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC (directly and indirectly) holds 100% shareholding interest in MCS Mining Group Limited, a substantial shareholder holding 31.43% of the issued share capital of the Company as at the date of this announcement. As such, USS is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the continuing connected transactions contemplated under the Service Agreement and Amendment Agreement constitute continuing connected transactions of the Company.

As the applicable percentage ratios in respect of the Revised Annual Caps for the continuing connected transactions under the Amendment Agreement are more than 1% but less than 5%, the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements but exempt from approval by the independent Shareholders under the Listing Rules.

BACKGROUND

The Service Agreement

Reference is made to the announcement of the Company dated 28 December 2016 in relation to, among others, the continuing connected transactions between Energy Resources and USS under the Service Agreement under which USS agreed to provide office and camp supporting services to the Group.

Information on the Group

The Group is principally engaged in producing and exporting of high-quality coking coal products in Mongolia.

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

Information on USS

USS, a wholly-owned subsidiary of MCS Holding, is principally engaged in provision of office and camp supporting services.

Historical Transaction Amounts

For the financial year ending 31 December 2017, the transaction amount incurred by the Group in respect of the continuing connected transactions under the Service Agreement was as follows:

Financial year	For the Financial Year ended 31 December 2017	Period covered
31 December 2017	MNT9,439,921,028 (then equivalent to approximately USD3,869,550)	12 months from 1 January 2017 to 31 December 2017

Based on the unaudited management accounts, the transaction amount under the Service Agreement as at the date of this announcement is MNT11,206,175,845 (equivalent to approximately USD4,565,223).

REVISION OF ANNUAL CAPS

Reasons of the revision

The Original Annual Caps were estimated with reference to the market conditions at the time when there was a market downturn for coal products in 2015 and 2016 and the Group's operation level was relatively low. For the years ended 31 December 2015 and 2016, the Group produced 2.7 million tonnes ("Mt") and 3.0 Mt of run-of-mine ("ROM") coal. Due to the market rebound, the demand for the Group's coal products have increased since 2017 resulting in a total production of 8.2 Mt of ROM coal for the year ended 31 December 2017 and 7.6 Mt of ROM coal for the nine months ended 30 September 2018. Accordingly, the assumptions on which the Original Annual Caps were based have changed and the Group's demand for office and camp supporting services has increased which is correspondingly consistent with the increased operation and production level of the Group. Therefore, it is anticipated by the Group that there is a need to increase the volume of services being provided under the Service Agreement between USS and Energy Resources for the current financial year ending 31 December 2018 and for the financial year ending 31 December 2019. Accordingly, the Board proposed to increase the Original Annual Caps applicable to both of the financial year ending 31 December 2018 and the financial year ending 31 December 2019 to the Revised Annual Caps.

As at the date of this announcement, based on the Group's latest unaudited management accounts, the actual transaction amount under the Service Agreement for the year ending 31 December 2018 has not exceeded the original annual cap for the financial year ending 31 December 2018.

It is emphasized that no other change to the Services Agreement was proposed by the Board and the remaining terms and conditions of the Service Agreement continue to remain in force and effective.

Revised Annual Caps

Pursuant to the Amendment Agreement, the Revised Annual Caps for the continuing connected transactions are as follows:

Financial year ending	Original Annual Caps	Revised Annual Caps
31 December 2018	MNT11,387,410,017 (then equivalent to approximately USD4,578,810)	MNT15,188,657,029 (equivalent to approximately USD5,764,196)
31 December 2019	MNT11,387,410,017 (then equivalent to approximately USD4,578,810)	MNT21,902,430,966 (equivalent to approximately USD8,312,118)

Basis of the Revised Annual Caps

The Revised Annual Caps are determined with reference to the internal projection of the amount of services required by the Group having regard to (i) the historical transaction amounts in respect of the office and camp support services; (ii) the anticipated increase in the number of employees and properties which would be utilized to provide services under the Service Agreement; (iii) the fee rates applicable under the Service Agreement; (iv) the business development plan of the Group; (v) increase in exchange rates and costs of material to be delivered to the site, (vi) possible inflation; and (vii) contingency buffer that would be applicable and payable for the services of USS under the Amendment Agreement.

Based on the Revised Annual Caps, the aggregate value of the consideration of the Service Agreement, as amended by the Amendment Agreement, is now MNT48,478,498,012 (equivalent to approximately USD18,397,912).

Each of Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts, Ms. Enkhtuvshin Gombo, and Mr. Enkhtuvshin Dashtseren being a Director and a director of MCS Holding has abstained from voting on the relevant resolutions of the Board in relation to the approval of the Amendment Agreement and the Revised Annual Caps.

The Board (including the independent non-executive Directors) is of the view that the terms of the continuing connected transactions contemplated under the Service Agreement, as amended by the Amendment Agreement, are fair and reasonable; such continuing connected transactions are on normal commercial terms or better and in the ordinary course of business of the Group; the entering into of the continuing connected transactions contemplated under the Service Agreement, as amended by the Amendment Agreement, is in the interests of the Company and its shareholders as a whole; and that the Revised Annual Caps for the continuing connected transactions contemplated under the Amendment Agreement are fair and reasonable.

Listing Rules Implications

USS is a wholly-owned subsidiary of MCS Holding which is in turn wholly-owned and controlled by MCS Mongolia LLC, which owns (directly and indirectly) a 100% shareholding interest in MCS Mining Group Limited, a substantial shareholder holding 31.43% of the issued share capital of the Company as at the date of this announcement.

As such, USS is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the transactions contemplated under the Amendment Agreement constitute continuing connected transactions of the Company.

As the applicable percentage ratios in respect of the Revised Annual Caps for the continuing connected transactions under the Amendment Agreement are more than 1% but less than 5%, the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements but exempt from approval by the independent Shareholders under Chapter 14A of the Listing Rules.

For the purpose of this announcement, the exchange rate of USD1.00 = MNT2,635.00 has been used in presenting the Revised Annual Caps for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate or at any other rates.

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

Hong Kong, 14 December 2018

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