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## **MONGOLIAN MINING CORPORATION**

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

**(Stock Code: 975)**

### **CONTINUING CONNECTED TRANSACTION**

On 27 January 2021, the Group has entered into the following agreements:

- (1) Agreement between Energy Resources, an indirectly wholly-owned subsidiary of the Company, and 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 billing for the consumption to Energy Resources and its subsidiaries from 1 April 2021 to 31 March 2024, for a total consideration of up to MNT81,501,588,305 (equivalent to approximately US\$28,601,565); and
- (2) Agreement between Khangad Exploration, an indirectly wholly-owned subsidiary of the Company, and MCS International, whereby MCS International agreed to provide power distribution facilities operation and maintenance services to Khangad Exploration from 1 April 2021 to 31 March 2024, for a total consideration of up to MNT4,813,739,647 (equivalent to approximately US\$1,689,298).

#### **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 directly 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 Power Agreements constitute continuing connected transaction of the Company.

As the applicable percentage ratios for the annual caps for the continuing connected transaction under the Power Agreements on an aggregated basis are expected to be more than 0.1% but less than 5%, the transactions contemplated under the Power Agreements 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:**

27 January 2021

## **Parties:**

Energy Resources as Employer

MCS International as Contractor

## **Principal terms:**

In broad terms, MCS International agreed to provide the following services to Energy Resources and its subsidiaries 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; and
- supply of electricity and heating to end customers and billing for the consumption.

The terms and conditions of the Agreement are similar to those provided under the 2018 Power System Operation and Maintenance Agreement with slight modifications to the description of the scope of services provided by MCS International to Energy Resources and its subsidiaries, which clarify the Contractor's rights with regards to the billing and collection of tariffs for the electricity supplied to the CEGS. Within the modified description, the Contractor will have the right to sell excess electricity to the CEGS if the electricity supply has fully met the power demand of the Employer and its affiliates. In the case of supplying the excess electricity to the CEGS, the Contractor is obliged to comply with the applicable laws and regulations and will have the right to receive payments for the electricity supplied to its own account directly. In the case the electricity usage of the Employer exceeds the technical capacity of the UHG Power Plant, the cost of electricity received from the CEGS shall be paid by the Employer and the calculations shall be based on the electricity tariff approved by the Energy Regulatory Commission.

Despite the modification in the description of the scope of services under the Agreement, the actual scope of services to be provided by MCS International to Energy Resources and its subsidiaries under the Agreement is essentially the same as those set out in the 2018 Power System Operation and Maintenance Agreement.

**Consideration and payment terms:**

The total consideration payable by Energy Resources and its subsidiaries to MCS International under the Agreement, which equals to the sum of the annual caps for the three years ending 31 March 2024, is MNT81,501,588,305 (equivalent to approximately US\$28,601,565), including VAT, other applicable taxes and all other costs to be 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 costs of 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 to 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 2018 Power System Operation and Maintenance Agreement.

Energy Resources and its subsidiaries shall be responsible for the costs of the supplies of fuel, water, coal, spare parts, machineries, materials, lubricants and equipment mechanism and other supplies required for the operation and overhaul of the Facilities in relation to the performance of services to be provided by MCS International under the Agreement as well as property insurance, immovable property taxes and depreciation.

**Payment terms:**

The monthly fee will be paid in MNT by Energy Resources and its subsidiaries on a monthly basis within 60 days upon receipt of valid invoice from MCS International.

**Historical transaction amount:**

Under the 2018 Power System Operation and Maintenance Agreement, annual caps for the three financial years ending 31 December 2020 were MNT21,488,322,240, MNT28,651,096,320 and MNT28,651,096,320 (then equivalent to approximately US\$8,973,359, US\$11,964,478 and US\$11,964,478) respectively. Transaction amounts (excluding VAT) incurred under the 2018 Power System Operation and Maintenance Agreement for the three financial years ended 31 December 2020 were approximately US\$6,346,543, US\$8,128,381, and US\$7,362,066 (unaudited) respectively.

## **Annual caps:**

The following table sets out the annual caps for the Agreement with MCS International during the Agreement term from 1 April 2021 to 31 March 2024 for the four financial years ending 31 December 2024:

<b>Financial year ending</b>	<b>Annual caps</b>	<b>Period covered</b>
31 December 2021	MNT20,375,397,076 (equivalent to approximately US\$7,150,391)	9 months from 1 April 2021 to 31 December 2021
31 December 2022	MNT27,167,196,102 (equivalent to approximately US\$9,533,855)	12 months from 1 January 2022 to 31 December 2022
31 December 2023	MNT27,167,196,102 (equivalent to approximately US\$9,533,855)	12 months from 1 January 2023 to 31 December 2023
31 December 2024	MNT6,791,799,025 (equivalent to approximately US\$2,383,464)	3 months from 1 January 2024 to 31 March 2024

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) scheduled major overhauls of the power plant equipment; (v) VAT and other taxes and (vi) 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 from 1 April 2021 to 31 March 2024.

## **Reasons for the transaction:**

The 2018 Power System Operation and Maintenance Agreement between MCS International and Energy Resources is expiring on 31 March 2021. Due to the importance of the continuity of the services, the Company conducted a new contractor selection and contract negotiation process in January 2021.

In accordance with the Law on Energy 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 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 services, and given its experience and its performance under the 2018 Power System Operation and Maintenance Agreement, the Company negotiated the Agreement with MCS International.

## **POWER DISTRIBUTION FACILITIES OPERATION AND MAINTENANCE AGREEMENT**

### **Date:**

27 January 2021

### **Parties:**

Khangad Exploration as Employer

MCS International as Contractor

### **Principal terms:**

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

- power distribution facilities operation and maintenance services.

On 18 September 2020, Khangad Exploration completed the 35 kV of electricity distribution overhead line and 35/0.4 kV of four substations which connects the Company's BN mine site to the UHG mine site continuing approximately 39.3 km of destination.

The terms and conditions of the Agreement are in similar to the 2018 Power System Operation and Maintenance Agreement between MCS International and Energy Resources with minor changes tailored to the description of the scope of services to be provided by MCS International to Khangad Exploration.

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

The total consideration payable by Khangad Exploration to MCS International under the Agreement, which equals to the sum of the annual caps for the three years ending 31 March 2024, is MNT4,813,739,647 (equivalent to approximately US\$1,689,298), including VAT, other applicable taxes and all other costs to be incurred by MCS International in providing the services as set out in the Agreement. The monthly fee consists of fixed charges where fixed charge is determined taking into account fixed costs to be incurred by MCS International such as costs of 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. The costs and profit margin applicable to 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 2018 Power System Operation and Maintenance Agreement.

Khangad Exploration shall be responsible for the costs of the supplies of fuel for diesel generators, spare parts, machineries, materials, lubricants and equipment mechanism and other supplies required for the operation and overhaul of the power and electricity network and substations owned by Khangad Exploration in relation to the performance of services to be provided by MCS International under the Agreement as well as property insurance, immovable property taxes and depreciation.

**Payment terms:**

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

**Historical transaction amount:**

This is a new operation and maintenance services to be rendered from MCS International to Khangad Exploration with regards to the 35 kV of electricity distribution overhead line and 35/0.4 kV of four substations which connects the Company's BN mine site to the UHG mine site continuing approximately 39.3 km of destination.

**Annual caps:**

The following table sets out the annual caps for the Agreement with MCS International during the Agreement term from 1 April 2021 to 31 March 2024 for the four financial years ending 31 December 2024:

<b>Financial year ending</b>	<b>Annual caps</b>	<b>Period covered</b>
31 December 2021	MNT1,203,434,912 (equivalent to approximately US\$422,325)	9 months from 1 April 2021 to 31 December 2021
31 December 2022	MNT1,604,579,882 (equivalent to approximately US\$563,099)	12 months from 1 January 2022 to 31 December 2022
31 December 2023	MNT1,604,579,882 (equivalent to approximately US\$563,099)	12 months from 1 January 2023 to 31 December 2023
31 December 2024	MNT401,144,971 (equivalent to approximately US\$140,775)	3 months from 1 January 2024 to 31 March 2024

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) scheduled major overhauls of the power plant equipment; (v) VAT and other taxes and (vi) 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 from 1 April 2021 to 31 March 2024.

## **Reasons for the transaction:**

The 2018 Power System Operation and Maintenance Agreement between MCS International and Energy Resources whereby it covered the scope of services including the operation and maintenance of electricity distribution facilities owned by Khangad Exploration is expiring on 31 March 2021. Due to the importance of the continuity of the services, the Company conducted a new contractor selection and contract negotiation process in January 2021.

In accordance with the Law on Energy 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 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 services, and given its experience and its performance under the 2018 Power System Operation and Maintenance Agreement, the Company negotiated the Agreement with MCS International.

## **INFORMATION ON THE GROUP**

The Company 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 directly 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. Mr. Odjargal Jambaljamts and Mr. Od Jambaljamts hold approximately 57.28% and 30.19% respectively in MCS Mongolia LLC. As such, MCS International is a connected person of the Company within the meaning of the Listing Rules and the transactions contemplated under the Power Agreements constitute continuing connected transaction of the Company.

As the respective relevant percentage ratios of the continuing connected transactions under the Power Agreements on an aggregated basis are expected to be more than 0.1% but less than 5%, the transactions contemplated under the Power Agreements 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. Enkhtuvshin Gombo, Mr. Enkhtuvshin Dashtseren, being a Director and a director of MCS Mining Group, has material interests in the transactions contemplated under the Power Agreements and has abstained from voting on the relevant resolutions of the Board in relation to the approval of the Power Agreements 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 Power Agreements 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 Power Agreements 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 Power Agreements are fair and reasonable.

## **INTERNAL CONTROL MEASURES**

The Company has comprehensive internal control system to ensure that the terms of the continuing connected transactions are fair and reasonable, and the continuing connected transactions are conducted on normal commercial terms or better and in the ordinary course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Relevant internal control measures include strict measures for evaluation and selection of suppliers and the tendering process; regular monitoring of actual amounts incurred for the continuing connected transactions to ensure the relevant annual caps are not exceeded; regular internal control tests to evaluate completeness and effectiveness of internal control measures; and regular review by the internal audit department, the audit committee of the Board, the Board, and the independent non-executive Directors.

## **DEFINITIONS**

“2018 Power System Operation and Maintenance Agreement”	Power System Operation and Maintenance Agreement entered into between MCS International and Energy Resources on 28 March 2018 and will expire on 31 March 2021;
“Agreement”	Power System Operation and Maintenance Agreement entered into between Energy Resources and MCS International on 27 January 2021; or Power Distribution Facilities Operation and Maintenance Agreement entered into between Khangad Exploration and MCS International on 27 January 2021 as the context requires;
“BN mine site”	the Group's Baruun Naran coal deposit located in Umnugobi aimag in Mongolia;
“Board”	the board of Directors;

“CEGS”	Central Energy Grid System;
“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;
“Facilities”	the UHG Power Plant, electricity distribution network, boiler houses, heating distribution network, and diesel generators owned by Energy Resources and its subsidiaries;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Khangad Exploration”	Khangad Exploration LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company;
“km”	kilometers;
“kV”	kilovolts;
“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 LLC, a company incorporated in Mongolia with limited liability, is a substantial Shareholder;
“MNT”	togrok or tugrik, the lawful currency of Mongolia;
“Power Agreements”	collectively, the Power System Operation and Maintenance Agreement entered into between Energy Resources and MCS International on 27 January 2021; and Power Distribution Facilities Operation and Maintenance Agreement entered into between Khangad Exploration and MCS International on 27 January 2021;

“Share(s)”	ordinary share(s) of US\$0.10 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 coal 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=MNT2,849.55, 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, 27 January 2021

*As at the date of this announcement, the board of directors of the Company consists of Mr. Odjargal Jambaljamts and Dr. Battengel 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.*