
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Controlling Shareholders

Immediately following the completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme), MCS Holding will, through MCS Group Limited and MCS Mining Group Limited, each a direct or indirect wholly-owned subsidiary of MCS Holding, be interested in approximately 45.3% of the enlarged issued share capital of our Company after the Global Offering and hence will continue to be the Controlling Shareholder of our Company. As Mr. Odjargal Jambaljamts has a 46.9% shareholding interest in MCS Holding, he will also be regarded as a Controlling Shareholder of our Company. For further details of Mr. Odjargal Jambaljamts, please refer to the section headed “Directors, Senior Management and Employees” in this prospectus.

MCS Holding is one of the largest and most diversified privately held holding companies in Mongolia. It has interests in sectors such as mining, energy and infrastructure, information and communication technology, beverage manufacturing and distribution, wholesale and retail trading, property development and management.

MCS Holding, together with other co-borrowers, entered into a loan agreement with International Finance Corporation (“IFC”) on May 31, 2008 (the “Loan Agreement”) and an amendment agreement on August 23, 2010 (together with the Loan Agreement, the “IFC Loan”).

Pursuant to the IFC Loan, IFC may exercise its conversion right to convert part of the loan to Shares by requiring MCS Holding to transfer the Shares held by MCS Holding to IFC. The conversion price in relation to such Shares will be the lower of the Offer Price per Share and the weighted average closing price per Share for the five trading days immediately preceding the date of the relevant conversion notice. The maximum number of Shares to be transferred by MCS Holding to IFC will not exceed 15% of the total issued share capital of our Company. No special rights have been granted to IFC by our Company.

Since IFC agrees to exercise the conversion right during a period of one year commencing on the date of expiry of the six-month lock-up period imposed under Rule 10.07 of the Listing Rules and concluding on the date falling 12 months thereafter, and MCS Holding agrees to ensure that after it transfers the required Shares to IFC pursuant to the exercise of the conversion right by IFC during the period commencing from the expiry of the first six-month lock-up period to one year from the Listing Date, it will remain as a Controlling Shareholder of our Company, there is no potential implication on compliance with Rule 10.07 of the Listing Rules.

Our Controlling Shareholders, will in effect be able to control the management, policies and business of our Company subject to the Memorandum and Articles of Association and applicable laws and regulations. It will be able to exercise significant influence over the composition of the Board, the selection of the senior management, the timing and amount of the dividend payments, the annual budget and other important corporate transactions of our Group.

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Independence of Our Group from MCS Holding

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from MCS Holding and its associates after the Global Offering.

Management independence

The Board comprises two executive Directors, seven non-executive Directors and three independent non-executive Directors. Our executive Director, Mr. Odjargal Jambaljamts and our non-executive Directors, Mr. Gantumur Lingov, Ms. Enkhtuvshin Gombo, Mr. Enkh-Amgalan Luvsantseren and Ms. Badamtsetseg Dash-Ulzii are also directors of MCS Holding.

The table below sets out the details of our Directors' and senior management's positions with MCS Holding and our Company:

Name	Position in the Company	Position in MCS Holding
<i>Executive Director</i>		
Odjargal Jambaljamts	Executive Director and Chairman of the Board	Non-executive Chairman of the board of directors
Battsengel Gotov	Executive Director and Chief Executive Officer	None
<i>Non-executive Director</i>		
Gantumur Lingov	Non-executive Director	Executive director and vice president
Enkhtuvshin Gombo	Non-executive Director	Director of finance department
Enkh-Amgalan Luvsantseren	Non-executive Director	Executive director and executive vice president
Badamtsetseg Dash-Ulzii	Non-executive Director	Executive director
Batsaikhan Purev	Non-executive Director	None
Oyungerel Janchiv	Non-executive Director	None
Philip Hubert ter Woort	Non-executive Director	None
<i>Independent non-executive Director</i>		
Unenbat Jigjid	Independent non-executive Director	None
Ochirbat Punsalmaa	Independent non-executive Director	None
Chan Tze Ching, Ignatius	Independent non-executive Director	None
<i>Senior Management</i>		
Enkhtuvshin Dashtseren	Chief Marketing Officer	Non-executive director
Bayarbayasgalan Dorjderem	Vice President, Mining	None
Gary Ballantine	Principal Geologist	None
Buljinsuren Gelenkhuu	Vice President, Safety	None
Oyunbat Lkhagvatsend	Vice President, Transportation and Logistics and Chief Executive Officer of Energy Resources Rail LLC	None
Davaakhuu Chultem	Vice President, Project Management	None
Bat-Erdene Gansukh	Vice President, Finance	None

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Mr. Odjargal Jambaljamts, being our executive Director and chairman of the Board, is responsible for the overall strategic direction of our Group. He has extensive experience in exploration and/or mining activities and is capable of providing significant contributions to our Group in respect of corporate finance and mergers and acquisitions activities. Although Mr. Odjargal Jambaljamts holds a position in MCS Holding, this position does not require him to be involved in the day-to-day management thereof. It is anticipated that only approximately 15% of his work time will be spent in his position as the non-executive chairman of MCS Holding and approximately 85% of his work time will be devoted to our Group.

Mr. Gantumur Lingov, Ms. Enkhtuvshin Gombo, Mr. Enkh-Amgalan Luvsantseren and Ms. Badamtsetseg Dash-Ulzii, who hold executive directorships or other senior management positions within MCS Holding, will only serve as non-executive Directors after Listing.

Our chief marketing officer, Mr. Enkhtuvshin Dashtseren, is a non-executive director of MCS Holding, but he is not involved in the day to day operations of MCS Holding. Mr. Enkhtuvshin Dashtseren will spend approximately 90% of his work time and attention on the management of our Group.

The table below sets out the details of the time allocation of the overlapping Directors and senior management between our Group and MCS Holding:

Name	Position in our Group	Approximate time devoted to our Group	Position in MCS Holding	Approximate time devoted to MCS Holding
<i>Executive Director</i>				
Odjargal Jambaljamts	Executive Director and Chairman of the Board	85%	Non-executive Chairman of the board of directors	15%
<i>Non-executive Director</i>				
Gantumur Lingov	Non-executive Director	15%	Executive director and vice president	85%
Enkhtuvshin Gombo.	Non-executive Director	15%	Director of finance department	85%
Enkh-Amgalan Luvsantseren . . .	Non-executive Director	15%	Executive director and executive vice president	85%
Badamtsetseg Dash-Ulzii.	Non-executive Director	15%	Executive director	85%
<i>Senior management</i>				
Enkhtuvshin Dashtseren	Chief Marketing Officer	90%	Non-executive director	10%

In the event there are conflicts of interest for approving a proposed transaction due to the dual directorships held by Mr. Odjargal Jambaljamts, Mr. Gantumur Lingov, Mr. Enkh-Amgalan Luvsantseren, Ms. Enkhtuvshin Gombo and Ms. Badamtsetseg Dash-Ulzii at our

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Company and MCS Holding, they shall, pursuant to the relevant provisions of the Articles of Association, abstain from physical meetings and shall not form the relevant quorum in the relevant Board meetings of our Company and MCS Holding for approving such transaction. Such transaction shall also require the approval by our independent non-executive Directors so as to ensure that the best interests of our Company are being served.

Save as disclosed above, our Directors confirm that they do not hold any directorships in MCS Holding.

Although the Controlling Shareholders will retain a controlling interest in our Company after Listing, our Company has full rights to make all decisions on, and to carry out, its own business operations independently. Our Company (through its subsidiaries) holds all relevant licenses necessary to carry on the business, and has sufficient capital, equipment and employees to operate the businesses independently from the Controlling Shareholders.

On February 1, 2008, MCS Holding and ER LLC entered into the Management Agreement under which MCS Holding shall provide certain management-related services to us. These services include operational and strategic planning, management, administration and organization of operations, development of business plans and policies for fund raising, design solutions with suitable mechanics and technologies for business operations, provide market studies and industry forecasts information, research and identify sales and marketing channels, overall guidance on financial reporting and accounting policies and liaison with governmental authorities. In early 2008, we were in the early stages of development and looked to our major shareholder, MCS Holding, for guidance on how to operate and develop the UHG deposit. Being a major conglomerate in Mongolia, MCS Holding has a team of personnel who has the requisite expertise and experience in areas which are relevant to our Group's business operations and development. Further, it was then agreed among MCS Holding and the other shareholders of ER LLC that MCS Holding should be given the role of managing our Group and developing the UHG deposit in the initial years. For the foregoing reasons, the Management Agreement was put in place to require MCS Holding to designate certain of its resources to develop and operate ER LLC and, in return, MCS Holding is compensated in accordance with the pricing basis for the Management Agreement as described in the section headed "Connected Transactions – 3A. Supply of Goods and Services by the MCS Group – information technology and management services (Category 3A)" in this prospectus. The Management Agreement will expire on January 1, 2012. We do not intend to renew the term or extend the scope of the Management Agreement upon its expiration. At the time of entering into the Management Agreement in early 2008, the scope of services under the Management Agreement was considered important to us as we were in the early stages of the development of our business and operations. Over the last few years, we have further developed and enlarged our operations and strengthened our own management team. To ensure minimal disruption to our current operations and in the interests of our Shareholders as a whole, we do not intend to terminate the Management Agreement prior to expiration as we will require time for the transition of such services to be assumed by our own management team. We have started performing some of these management-related services ourselves including formulating our business plans and strategies, and anticipate that we will be able to perform all such services on or before the expiration of the Management Agreement.

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Our Company's day-to-day management and operational decisions are made by the executive Directors and senior management, who have substantial experience in the industry in which our Company operates. Further, the three independent non-executive Directors will bring independent judgment to the decision-making process of the Board.

Save for the continuing connected transactions disclosed in the section headed "Connected Transactions" in this prospectus, our Directors do not expect that there will be any other transactions between our Group and the Controlling Shareholders upon or shortly after the Listing.

Having considered the above factors, our Directors are satisfied that the management team of our Company is able to perform its role in our Company independently, and our Directors are of the view that our Company is capable of managing its businesses independently from Mr. Odjargal Jambaljamts, Mr. Gantumur Lingov, Mr. Enkh-Amgalan Luvsantseren, Ms. Enkhuvshin Gombo and Ms. Badamtsetseg Dash-Ulzii and their respective associates.

Operational independence

During the Track Record Period, our Group has entered into various agreements with the MCS Group which, had those agreements survived the Listing, would each constitute a continuing connected transaction of our Group. Mongolia has a developing market economy with a relatively small population of approximately 2.9 million people. In Mongolia, the MCS Group is considered a conglomerate with significant interests in a wide variety of sectors including mining, energy and infrastructure, information and communication technology, beverage manufacturing and distribution, wholesale and retail trading, property development and management. In addition, the MCS Group is widely recognized and acknowledged in Mongolia as a market leader in many of the sectors they operate domestically.

The MCS Group currently provides a variety of services to our Group. These services have been broadly categorized as (i) leasing of office space; (ii) leasing of office equipment; (iii) supply of information technology services; (iv) supply of offices and camp sites supporting services; and (v) supply of construction supporting and ancillary supporting services. Our Group requires the foregoing services provided by the MCS Group to facilitate its daily operation. However, these services do not form the core business of our Group and are ancillary to the operation of our Group's business. Our Directors are of the view that such services provided by MCS Group to us do not affect the operational independence of our Group.

(i) Leasing of office space

We have entered into a lease with MCS Holding under which MCS Holding leases to us an aggregate gross floor area of approximately 87 square meters located at 3 khoroo, MCS Arun Centre in Khan-Uul, Ulaanbaatar. The lease will expire in December 2010 and rental payable by us is determined with reference to market rental rates. Our property valuer, American Appraisal China Limited, confirms that the rental payable under the lease is in accordance with the prevailing market rates for rental of comparable properties.

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(ii) Leasing of office equipment

During the Track Record Period, the MCS Group leased office equipment such as computers, printers, monitors, fax machines, photocopiers and scanners, to us for our general office usage. MCS Group owns one of the biggest office equipment providers in Mongolia. It provides a wide range of high quality office equipment at competitive prices. We require the rented office equipment as administrative support for our business and, to the best of our knowledge, the rental rates payable by us for such office equipment are similar to the rates payable by other lessees to MCS Group for the same type of office equipment. The lease agreements for different office equipment commenced on different dates and, as such, the expiration of the latest lease agreement is in April 2013.

If there are other providers leasing office equipment who are able to provide an extensive range of high quality office equipment on terms more competitive than MCS Group as well as strong customer and maintenance support during the lease period, we will strongly consider using other service providers.

(iii) Supply of information technology services

During the Track Record Period, MCS Group provided us with certain information technology services including, iridium satellite communication services, satellite internet connection services, computer systems, domain name and services to maintain time and attendance system used for registration of attendance of employees. These services are ancillary support services that are required as part of the day-to-day operation of our business. MCS Group is the only provider of the iridium satellite communication services and satellite internet connection services in the area of the UHG deposit. Given the UHG deposit is located in a remote area approximately 540 km south of Ulaanbaatar, there is no other established internet connection network in the area and the high speed satellite internet connection is currently the only way in which our Group and other residents in the same area can access the internet in UHG. Also, there are no alternative service providers in Mongolia who are able to provide maintenance services for our computer systems and our domain name.

(iv) Supply of offices and camp sites supporting services

As the UHG deposit is located in a remote area in Mongolia, we have constructed accommodations for our employees at the mine site and it is possible to accommodate up to approximately 650 persons. To meet certain daily needs of our employees as well as for the general maintenance of the accommodations at the camp site, supporting services such as cleaning and cafeteria services are required. We have engaged MCS Group to provide such ancillary supporting services to us.

(v) Supply of construction supporting and ancillary supporting services

As part of our plans to expand our mining activities, we needed to build additional infrastructures and utilities near the UHG deposit including, a power plant and electricity transmission line to generate power for the camp site and sub stations, and to generate

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electricity to operate various mining machineries and equipment used at the UHG deposit and heating system at the UHG deposit camp site. Our Group engaged the MCS Group to construct the relevant infrastructure as the MCS Group is one of the few companies in Mongolia that has the requisite permits and is the only service provider capable of providing services in the UHG deposit area at the requisite level of professionalism and quality. The relevant maintenance services were provided by the MCS Group on normal commercial terms and on arms-length basis.

In deciding to enter into such agreements with the MCS Group, we considered various factors such as (i) the availability of an alternative supplier; (ii) the quality of the services or products provided by the alternative supplier; and (iii) the price offered by the alternative supplier, as compared to those offered by the MCS Group. As the MCS Group is one of the largest conglomerates in Mongolia, possessing the relevant expertise and experienced personnel in many sectors, and due to the limited alternative suppliers available in the market, we were of the view that each of the transactions entered into with the MCS Group are and will be on normal commercial terms, in line with market rates, and in the ordinary and usual course of business of our Group; and it would be in our best interests to enter into such agreements with the MCS Group to ensure that the services or products acquired by our Group are of the highest quality.

Each of the above services or arrangements are part of our day-to-day operation of our business. Except for the iridium satellite communication services, satellite internet connection services and the construction support services which MCS Group is the sole provider available in Mongolia, if we fail to obtain the ancillary and supporting services from MCS Group or have these arrangements in place, we believe the adverse impact on our Group would be minimal as these services and arrangements are ancillary to our core business operation. We may procure similar services or arrangements from alternative providers, and in general, we currently expect such services will be of a lower quality or on less competitive prices or terms than that offered by the MCS Group. To terminate existing arrangements for such services or arrangements prior to the expiration of the term of these arrangements will cause us to incur unnecessary additional cost to replace the current services or find alternative arrangements.

If we do not have access to the iridium satellite communication services, satellite internet connection services and the construction support services from the MCS Group, whom we believe is the only provider capable of providing such services in Mongolia, we anticipate we will experience some inconveniences to our daily operations. Without access to satellite internet connection at the UHG deposit would mean that we may experience delays in our communication within our Group as well as externally. Although the construction of the power plant and the heating supply system have been completed, we continue to require the maintenance services provided by the MCS Group and the loss of such services will bring certain inconveniences to us, but we do not anticipate that it will have a material adverse impact on the core business of our Group.

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Although there is a general lack of alternative service provider in Mongolia offering services we need which are of comparable quality and at competitive prices, we anticipate that, given Mongolia is a developing market, there may be more service providers in the near future who can offer similar services on terms acceptable to us. We will continue to search and identify other service providers who can offer quality services at competitive prices and terms and we will seriously consider engaging such alternative services providers if their offerings are better than MCS Group's. As for services which the MCS Group is currently the only service provider in Mongolia, we will continue to engage the MCS Group until we can find an alternative service provider who can offer at least the same as the MCS Group. In all circumstances, we endeavor to engage service providers who can provide the high quality service on attractive terms and ensure that the engagement is in the best interest of our Group and our Shareholders as a whole.

For details of the continuing connected transactions with the MCS Group, please refer to the section headed "Connected Transactions" in this prospectus.

The table below sets out our Group's operating and administration cost paid to the MCS Group and its percentage to our Group's total operating cost during the Track Record Period:

Year	2007	2008	2009	Jan-Apr 2010
Total operating and administration expenses of our Group*	USD 442,629	USD 4,043,792	USD 49,109,421	USD 27,780,081
Total operating and administration expenses paid to the MCS Group . . .	USD 174,010	USD 1,751,158	USD 5,422,696	USD 2,177,132
Percentage to our Group's total operating and administration expenses	39.31%	43.30%	11.04%	7.84%

* *Total operating and administration expenses of our Group includes cost of revenue and administration expenses for the corresponding period.*

After having reviewed the terms of the transactions and discussed them with us, the Joint Sponsors are of the view that our Group is able to operate independently from the MCS Group given that (i) the fees paid to the MCS Group as a proportion of our total operating and administration expenses have fallen from 2008 to April 2010, with a high of 43.30% (US\$1,751,158 out of US\$4,043,792) in 2008 to a low of 7.84% (US\$2,177,132 out of US\$27,780,081) in the first four months of 2010, and (ii) the services provided by MCS Group are ancillary to the operation of our core business.

Corporate governance measures

We currently have in place a set of procedures for procurement of goods and services which calls for a competitive bidding process and a comparative analysis of bids. Our Directors, however, recognize the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders and will voluntarily adopt upon Listing a more stringent set of procedures to monitor the future connected transactions of our Company.

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Under Rules 14A.37 and 14A.38 of the Listing Rules, all continuing connected transactions between our Company and our connected persons are subject to annual review by the independent non-executive Directors as well as the auditors of our Company to ensure, among other things, that (i) the disinterested Board has approved the transactions; (ii) the transactions are in the ordinary and usual course of business of our Group; (iii) the transactions are either on normal commercial terms or, if there are insufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to our Group than terms available to or from (as appropriate) Independent Third Parties; (iv) the transactions have been entered into in accordance with the relevant agreement governing them that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. In order to comply with these requirements, the management of our Group will continuously monitor the conducts of all continuing connected transactions between our Company and our connected persons to ensure that all these transactions will be conducted in the above manner, failing which we will need to re-comply with the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the relevant transactions.

In addition to the above annual review requirements as prescribed under the Listing Rules, we will also adopt the following corporate governance measures to monitor future connected transactions of our Company after Listing:

1. quotation from not less than two alternative suppliers (where available) will be sought for each proposed connected transaction, to ensure that the terms of the connected transaction will be on normal commercial terms;
2. all Directors who have interest in the connected person will not attend any Board meeting to discuss matters which relate to transactions with such connected person, and will abstain from voting on all resolutions of the Board approving transactions with such connected person;
3. the Audit Committee will monitor each of the connected transactions of our Company periodically and will be presented with information such as quotation of purchase orders at least semi-annually; and
4. should our senior management and Directors consider necessary and appropriate, they may, at the cost of our Company, engage independent professional(s) to assist in reviewing the terms of the connected transactions with our connected persons.

Our Directors consider that the above corporate governance measures are sufficient to protect the interests of our minority Shareholders.

We hold all relevant licenses and assets necessary to operate our business, and we have sufficient employees to operate our business independently.

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We also have independent access to our customers including end users in coal and coal traders, which are independent from MCS Holding and its associates. We do not rely on MCS Holding and its associates for access to customers.

Our Directors also confirm that our Group carried out all its essential administrative operations, such as cash and accounting management, invoicing and billing and other financial and management control systems independently from MCS Holding and its associates. We have established our own accounting, financial and treasury departments independent from MCS Holding and its associates.

Financial independence

Our Directors confirm that our Company is financially independent from the Controlling Shareholders upon Listing. All outstanding loans and non-trade payables owed to and from, and/or outstanding financial guarantees or indemnities provided by the Controlling Shareholders and their associates have been settled before the Listing.

Our Directors believe that our Group is able to obtain further financing such as bank loans, if necessary, upon market terms and conditions without relying further on the financial assistance from the Controlling Shareholders and their associates after the Listing. Certain banks, for instance, have granted our Company credit lines without requiring assistance from the Controlling Shareholders or their associates as a pre-condition.

The Controlling Shareholders have provided a non-disposal undertaking to the Stock Exchange and our Company, detailed terms of which are set out in the section headed “Underwriting – Undertakings” in this prospectus.

Non-competition Undertaking

In order to maintain a clear delineation of our respective businesses going forward, subject to the exceptions set forth below, the Controlling Shareholders have, pursuant to the deed of non-competition, undertaken to our Company that, at any time during which our Shares are listed on the Stock Exchange and for so long as the Controlling Shareholders and its associates together hold, whether individually or taken together, 30% or more of our issued share capital or are otherwise regarded as a Controlling Shareholder of our Company under the Listing Rules,

- (i) the Controlling Shareholders will not, and will procure that its associates (excluding our Group) will not, directly or indirectly, either on its own account or with each other or in conjunction with or on behalf of any person, firm or company, except through a member of our Group, among other things, carry on, participate or be interested or engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business (except for their aggregate 10% interest in QGX) which is or may be in competition with the Restricted Mining Business of any member of our Group from time to time; and

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- (ii) that in the event that any of the Controlling Shareholders and/or any of their associates is offered or becomes aware of any business opportunity directly or indirectly to engage or become interested in a Restricted Transportation Business, it/they:
 - (a) shall promptly notify our Company in writing and refer such business opportunity to our Company for consideration and provide such information as reasonably required by our Company in order to come to an informed assessment of such business opportunity; and
 - (b) shall not and procure its/their associates shall not, invest or participate in any project or business opportunity unless such project or business opportunity shall have been rejected by our Company and the principal terms on which the Controlling Shareholders or its/their associates invest or participate are no more favourable than those made available to our Company.

The restrictions which the Controlling Shareholders agreed to undertake in the above do not apply in the circumstance where the Controlling Shareholders or their associates have interests in the shares or securities in any company which conducts or is engaged in any Restricted Mining Business or Restricted Transportation Business, whose shares are listed on a recognized stock exchange provided that:

- (i) the total number of the shares held by the Controlling Shareholders and/or their associates in aggregate does not exceed 10% of the issued shares of that class of the company in question and the Controlling Shareholders and their associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company is more than the total number of shares held by the Controlling Shareholders and their associates in aggregate; and
- (ii) the total number of shares held by the Controlling Shareholders and/or their associates shall not exceed 30% of the issued share capital of that company.

Under the deed of non-competition, the Controlling Shareholders further undertake to our Company that:

- (i) each of the Controlling Shareholders shall allow, and shall procure that the relevant associates (excluding us) to allow, the independent non-executive Directors to review, at least on an annual basis, the Controlling Shareholders that each of the Controlling Shareholders is in compliance with the deed of non-competition;
- (ii) each of the Controlling Shareholders shall provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the deed of non-competition;
- (iii) our Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the deed of non-competition either through the annual report, or by way of announcement to the public; and

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- (iv) each of the Controlling Shareholders shall provide to our Company with a confirmation annually for inclusion by our Company in its annual report, in respect of their compliance with the terms of the deed of non-competition.

MCS Holding and Mr. Odjargal Jambaljamts currently indirectly owns a 4.9% and 5.1% interest, respectively, in Quincunx (BVI) Ltd (“QGX”). QGX and its subsidiaries (the “QGX Group”) have been exploring for mineral deposits in Mongolia since 1994. QGX’s two most advanced properties are the Baruun Naran coking coal deposit (the “Baruun Naran Deposit”) and the Bayan Airag gold, silver and copper deposit. The Baruun Naran Deposit is located in southern Mongolia, in the aimag of Umnugobi approximately 500 km south of Ulaanbaatar. In relation to the Baruun Naran Deposit, QGX announced in August 2007 an independent NI 43-101 resource for coking and thermal coal comprised of 93.3 Mt of measured, 159.5 Mt of indicated and 11.1 Mt of inferred resources. Production has not yet commenced at the Baruun Naran Deposit.

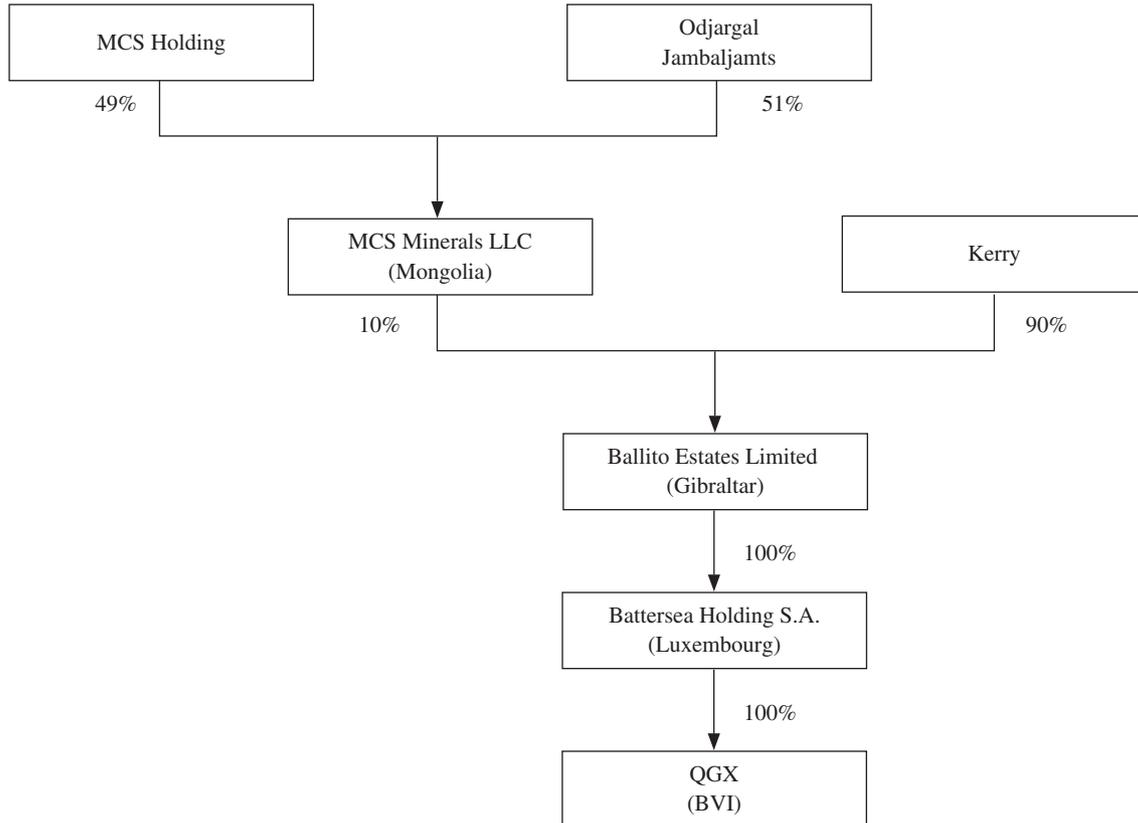
Each of MCS Holding and Mr. Odjargal Jambaljamts has very limited control and influence over the QGX Group’s daily operations. MCS Holding has no involvement in the day-to-day operations of the QGX Group. It has neither corporate governance nor operational or management representation in the QGX Group and has no influence on the financial and operational decisions of the QGX Group, with each of MCS Holding and the QGX Group operating completely independent of each other. MCS Holding does not have any board representation in the QGX Group and Mr. Odjargal Jambaljamts is not a director of the QGX Group. MCS Holding and Mr. Odjargal Jambaljamts hold indirect interests of 4.9% and 5.1% in the QGX Group, respectively, and their control and influence over the QGX Group is limited to their power as a shareholder to vote at the shareholders’ meetings of the QGX Group.

MCS Holding’s relationship with the QGX Group will have no impact on the timing and ramp-up schedule of our Company’s own development plan.

Each of MCS Holding and Mr. Odjargal Jambaljamts is unable to inject the business of the QGX Group into the Group, or inject their 10% interests in the QGX Group into our Group, without the consent of the other shareholders. Our Group has not sought other shareholders’ consent for injecting the QGX’s Group business into our Group and has no present intention to seek other shareholders’ consent to do so. However, our Group will be open to considering all possible options and business opportunities that arise in the future and will seek consent when necessary. The management of our Group constantly seeks external growth opportunities and will evaluate opportunities with a disciplined and conservative approach that primarily focuses on returns on investment and the probability, expected cost and timing of realizing synergies.

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The diagram below sets out the shareholding structure of the QGX Group:



Wood Mackenzie, our independent industry consultant, does not expect the Baruun Naran Deposit to come online until 2015. As such, our Directors are of the view that there is currently no competition between our Group and the QGX Group, nor is any expected in the near future.

Also, since MCS Holding and Mr. Odjargal Jambaljamts only have a 10% equity interest in QGX and very limited control and influence over the QGX Group's daily operations, our Directors are of the view that the risk of conflicts of interest between our Group and the QGX Group would be minimal.

In view of the ever changing market conditions and the evolving global economy, the MCS Group is of the view that it is not in its interests to have in place a solid plan to manage any potential competition between our Group and the QGX Group in the future. The MCS Group will continuously monitor the development of the business operations of the QGX Group and will react accordingly to any potential competition that may arise between our Group and the QGX Group, including disposing of all the MCS Group's interests in the QGX Group, acquiring a controlling interest in the QGX Group and any other feasible options available at the relevant time. In any event, the MCS Group will plan, strategize, and deal with any potential competition with the QGX Group that may arise in the future with the objective to maximize the interest of our Shareholders. It is difficult to make a comprehensive assessment on the level of competition at this stage. However, it is expected that such competition may include competition for customers, utility supplies (e.g. power, water),

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

transportation, labor, raw materials etc. As confirmed by each of the Controlling Shareholders, they do not have any present intention to increase their respective interests in the QGX Group.

In addition to the above, MCS Holding also has an effective interest of 16.5%, 35.75%, 16.67% and 5.00% in Universal Copper LLC, Olova LLC, IBE LLC and Khet Borzan LLC, respectively. Universal Copper LLC is a company engaging in the copper industry having its operations in the Bayankhongor aimag in Mongolia. Olova LLC is a company engaging in the tin industry having its operations in the Central aimag in Mongolia. IBE LLC is a company engaging in the copper and gold industry having its operations in the Dornogobi aimag in Mongolia. Khet Borzan LLC is a company engaging in the oil industry having its operation in the Umnugobi aimag in Mongolia. Our Directors do not expect such other mining businesses of the MCS Group to compete with our Group's business.

Save as disclosed above, all Directors confirmed that they do not engage in any business which competes, or is likely to compete, directly or indirectly, with our Company's business.