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MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 975)

CONTINUING CONNECTED TRANSACTION

On 30 December 2014, Energy Resources, an indirect 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 January 2015 to 31 December 2017 for a total consideration of MNT86,332,146,634 (equivalent to approximately US\$45,815,832).

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) Limited which directly owns a 100% shareholding interest in MCS Mining Group, a substantial Shareholder holding approximately 33.50% 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 transaction contemplated under the Agreement constitutes a continuing connected transaction of the Company.

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

POWER SYSTEM OPERATION AND MAINTENANCE AGREEMENT

Date:

30 December 2014

Parties:

Energy Resources as principal

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; and
- supply of electricity and heating to end consumers and contractors of the Group and billing for the consumption.

The terms and conditions of the Agreement are similar to those provided under the Power and Heat Generation, Distribution and Management Agreement with slight modifications to the description of the scope of services provided by MCS International to the Group, which clarify that MCS International, as contractor, will use the facilities of the Company to produce electricity and heat and distribute the electricity and heat to the end consumers and contractors of the Group. Despite the differences in the description of the scope of services under the Agreement and the Power and Heat Generation, Distribution and Management Agreement, the actual 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 Power and Heat Generation, Distribution and Management Agreement.

Consideration and payment terms:

The total consideration payable by the Group to MCS International under the Agreement, which equals to the sum of the annual caps for the three years ending 31 December 2017, is MNT86,332,146,634 (equivalent to approximately US\$45,815,832), 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 remuneration 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 remuneration 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 and Heat Generation, Distribution and Management 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.

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

Under the Power and Heat Generation, Distribution and Management Agreement, annual caps for the three financial years ending 31 December 2014 were MNT16,809,119,750, MNT22,202,816,264 and MNT23,823,842,159 respectively. Transaction amounts (excluding VAT) incurred under the Power and Heat Generation, Distribution and Management Agreement for the two financial years ended 31 December 2013 were approximately MNT14,608,492,088 and MNT20,394,735,884 respectively, and was MNT14,829,158,631 for the eleven months ended 30 November 2014.

Annual caps:

The following table sets out the annual caps for the Agreement with MCS International for the three financial years ending 31 December 2017:

Financial year ending	Annual caps	Period covered
31 December 2015	MNT26,877,569,129 (equivalent to approximately US\$14,263,727)	12 months from 1 January 2015 to 31 December 2015
31 December 2016	MNT28,692,727,071 (equivalent to approximately US\$15,227,018)	12 months from 1 January 2016 to 31 December 2016
31 December 2017	MNT30,761,850,434 (equivalent to approximately US\$16,325,087)	12 months from 1 January 2017 to 31 December 2017

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 after considering production and business expansion, (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 for a period commencing from 1 January 2015 to 31 December 2017.

Reasons for the transaction:

The current Power and Heat Generation, Distribution and Management Agreement with MCS International is expiring on 31 December 2014. Due to the importance of the continuity of this service, the Company conducted a new contractor selection and contract negotiation process in August 2014.

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 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.

Further, in order to increase reliability of the UHG Power Plant, MCS International built a 14 km double circuit 220 kV overhead transmission line connecting the UHG Power Plant with the CEGS with its own investment, which brought a number of benefits to the Group including increase in the MTBF for both UHG Power Plant and CHPP, decrease in total failure time by two times, decrease in failure duration, increase in CHPP availability, decrease in maintenance costs and time, and significant decrease in the usage of diesel generators resulting in cost savings. Upon connecting the UHG Power Plant to the CEGS, whenever there is low consumption at the UHG mine site, excess electricity produced by the UHG Power Plant will be fed to the CEGS. The UHG mine site will be able to get electricity from the CEGS during peak production period and also during times of emergency, keeping power output constant which allows stable operation and longer lifetime of the UHG Power Plant's main equipments.

As MCS International is the only company that is interested and qualified in providing the requested power system operation and maintenance services, and given its experience, apparent competitive advantage and its performance under the current Power and Heat Generation, Distribution and Management Agreement, the Company negotiated the Agreement with MCS International.

INFORMATION ON THE GROUP

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

INFORMATION ON MCS INTERNATIONAL

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) Limited which directly owns a 100% shareholding interest in MCS Mining Group, a substantial Shareholder holding approximately 33.50% 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 transaction contemplated under the Agreement constitutes a continuing connected transaction of the Company.

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

Each of Mr. Odjargal Jambaljamt, Mr. Od Jambaljamt, Mr. Gankhuyag Adilbish, being a Director and a director of MCS Mining Group, has material interests in the transaction 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 transaction contemplated under the Agreement is entered into in the ordinary and usual course of business of the Group, on normal commercial terms (or on terms no less favourable to the Group than terms available to or from independent third parties) and on terms that are fair and reasonable, and 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 transaction 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 30 December 2014;
“Board”	the board of Directors;
“CEGS”	central energy grid system;
“CHPP”	Coal handling and preparation plant;
“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;
“km”	kilometer;
“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 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;

“MTBF”	mean time between failure;
“Power and Heat Generation, Distribution and Management Agreement”	Power and heat generation, distribution and management agreement entered into between MCS International and Energy Resources on 9 May 2011 subsequently amended on 3 April 2012, and expiring on 31 December 2014;
“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=MNT1,884.33, 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 30 December 2014

As at the date of this announcement, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battengel Gotov, being the executive Directors, Dr. Oyungerel Janchiv, Mr. Batsaikhan Purev, Mr. Od Jambaljamts and Mr. Gankhuyag Adilbish, being the non-executive Directors, and Mr. Ochirbat Punsalma, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.