You should read this section in conjunction with our combined financial statements, including the notes thereto, set forth in "Appendix I – Accountants' Report". to this prospectus. The financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current condition and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of factors over which we have no control. You should review the section headed "Risk Factors" in this prospectus for discussion of important factors that could cause our actual results to differ materially from the results described in or implied by forward-looking statements.

Overview

We are a Mongolian-owned mining company engaged in the open-pit mining of coking coal at our UHG deposit located within the Tavan Tolgoi coal formation in South Gobi, Mongolia. Our UHG mine had 499.9 million tonnes and 286.0 million tonnes of JORC-compliant measured and indicated coal resources and proven and probable reserves, respectively, as of May 31, 2010. We were granted Mining License MV-11952 covering the UHG deposit on August 29, 2006 for an initial period of 30 years to engage in coal mining activities. Our license area covers 2,960 hectares, and as of the Latest Practicable Date, our mine plan to 2013 will cover approximately 6% of our license area. Currently, all our coking coal is transported by trucks to our customers in China. According to Wood Mackenzie, our coking coal is of high-quality.

We own and operate the largest coking coal mine in Mongolia held by a private company, by aggregate production and sales volume. As coking coals are either consumed by coke plants or steel mills in Mongolia or exported and according to the MRAM, there are no officially registered coke plants or steel mills operating in Mongolia, we believe export volumes can be a proxy for production volumes. The official record of the Mongolian Customs Office, which shows data on total exports of coking and hard coals by major exporters, indicates that for of the three years ended December 31, 2009 and the six months ended June 30, 2010, there were a total of one, two, three and two major exporters of coking coal, respectively. For the six months ended June 30, 2010, we were the largest exporter of coking coal in Mongolia exporting approximately 61.9% of the total exports of coking coal shown on the official record of the Mongolian Customs Office. As a result of the foregoing, we believe we are the largest producer and exporter of coking coal in Mongolia for the six months ended June 30, 2010 and we are well positioned over any other mining company to pursue exploration activities in Mongolia.

Our UHG deposit is located within the Tavan Tolgoi coal formation, which according to Wood Mackenzie, is one of the few remaining largely unexploited sources of high-quality coking coal in the world and the closest coking coal formation to China.

We commenced mining at our UHG deposit in April 2009, for the year ended December 31, 2009, we produced 1.8 million tonnes of coking coal. We plan to produce approximately 3.8 million tonnes of coking coal in 2010 and increase our coal production to approximately 15.0 Mtpa for the year ending December 31, 2013. We currently sell only unwashed coking coal.

Based on public information about comparable Shanxi coking coals, unwashed coking coal is sold at an approximate 35-40% discount to washed coking coal, and as of June 30, 2010, unwashed coking coals sold at an approximate 35% discount to washed coking coals. For example, based on public information, a comparable washed coking coal sold at approximately RMB1,530 per tonne whereas the price for unwashed coking coal was RMB1,000 per tonne, as of June 30, 2010. During the Track Record Period, the discount from washed coking coal to unwashed coking coal ranged from 16-36%. As part of our mine expansion and to further improve our margins, we are constructing a coal handling and washing plant that will produce high-quality washed coking coals. The ramp-up of our coal handling and washing plant will coincide with the ramp-up of our coal mine production. We expect the first 5.0 Mtpa of our coal handling and washing plant to be operational by early 2011, which will be the first of its kind in Mongolia, with the second and third phases of 5.0 Mtpa each to be operational in the second half of 2011 and by the end of 2012, respectively.

Basis Of Presentation

The Company was incorporated in the Cayman Islands on May 18, 2010 as an exempted company with limited liability under the Cayman Companies Law. Pursuant to the Reorganization, the Company became the holding company of the companies now comprising the Group. Prior to this, our parent company was MCS Holding. It first obtained approximately 45.1% shareholding interest in ER LLC on December 28, 2007. Further, on March 26, 2009, MCS Holding also acquired approximately 75.8% indirect interest in Tengeriin Tsag Group LLC. At that time, Tengeriin Tsag Group LLC held approximately 31.4% shareholding interest in ER LLC. As of March 26, 2009, together with its 33.5% shareholding interest in ER LLC at that point in time (which is held through MCS Mining LLC), MCS Holding's indirect interest in ER LLC was increased to approximately 57.2%. See "History, Reorganization and Corporate Structure". The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

Pursuant to the Reorganization, the Company, through the relevant investment holding companies acquired the entire equity interest in ER LLC from its then shareholders. Upon completion of the Reorganization, the Company became the holding company of ER LLC.

The Reorganization has been accounted for by applying a principle similar to that for a reverse acquisition as set out in IFRS 3, Business combinations, rather than its legal forms throughout the Track Record Period. The issue of shares of the Company and the relevant investment holding in exchange for the entire interest in ER LLC resulted in the Company becoming the sole shareholder of ER LLC. The financial information has been prepared as a continuation of ER LLC and the assets and liabilities of ER LLC are recognized and measured at their historical carrying values prior to the Reorganization. The Financial Information before the acquisition date consists of the consolidated financial information of ER LLC, as the predecessor reporting entity.

In this case, being a share exchange transaction, the Company is a shell holding company setting up as a special purpose vehicle for the purpose of becoming the parent company of ER LLC. Accordingly, the directors have adopted a principle similar to that for a reverse acquisition in preparing the Group's Financial Information.

The following table sets out our statement of comprehensive income and other selected financial information for the periods indicated, as derived from the Accountants' Report in Appendix I to this prospectus:

	Year ended December 31,			Four months ended April 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	(US$)	**(US$)**	**(US$)**	**(US$) (unaudited)**	**(US$)**
Revenue	–	–	66,982,707	119,843	32,253,543
Cost of revenue	–	–	(38,682,328)	(75,764)	(20,713,052)
Gross Profit	–	–	28,300,379	44,079	11,540,491
Other revenue	–	80,989	70,002	15,224	4,330
Other net (expenses)/income	(3,506,536)	(8,575)	(34,813)	179	–
Administrative expenses	(442,629)	(4,043,792)	(10,427,093)	(3,347,448)	(7,067,029)
(Loss)/profit from operations	(3,949,165)	(3,971,378)	17,908,475	(3,287,966)	4,477,792
Finance income	6,629	12,856	342,318	59,460	2,808,186
Finance costs	(30,026)	(1,139,261)	(3,860,204)	(1,565,541)	(1,045,452)
Net finance (costs)/income	(23,397)	(1,126,405)	(3,517,886)	(1,506,081)	1,762,734
Share of profits/(losses) of associate	–	29,735	(9,702)	(3,312)	(11,449)
(Loss)/profit before taxation	(3,972,562)	(5,068,048)	14,380,887	(4,797,359)	6,229,077
Income tax	942,658	1,488,616	(4,110,723)	1,003,863	(1,217,604)
(Loss)/profit for the year/period	(3,029,904)	(3,579,432)	10,270,164	(3,793,496)	5,011,473
Other comprehensive income for the year/period					
Exchange differences on retranslation	(13,995)	(1,450,430)	30,590	434,608	2,435,841
Total comprehensive income for the year/period	(3,043,899)	(5,029,862)	10,300,754	(3,358,888)	7,447,314
(Loss)/profit attributable to the equity shareholders of the Company	(3,029,904)	(3,579,432)	10,270,164	(3,793,496)	5,011,473
Total comprehensive income attributable to the equity shareholders of the Company	(3,043,899)	(5,029,862)	10,300,754	(3,358,888)	7,447,314
(Loss)/earnings per share					
– Basic	(0.10 cent)	(0.12 cent)	0.34 cent	(0.13 cent)	0.17 cent

	As of December 31,			As of April 30,
	2007	2008	2009	2010
	(US$)	(US$)	(US$)	(US$)
Assets				
Non-current assets	1,014,085	27,579,016	83,161,930	111,765,325
Current assets	970,887	8,347,133	30,068,092	44,931,009
Total	1,984,972	35,926,149	113,230,022	156,696,334
Equity and liabilities				
Total equity	(982,616)	14,790,614	43,841,368	51,288,682
Non-current liabilities	–	2,204,217	27,286,982	18,289,752
Current liabilities	2,967,588	18,931,318	42,101,672	87,117,900
Total equity and liabilities	1,984,972	35,926,149	113,230,022	156,696,334

Factors Affecting Results of Operations and Financial Condition

Our business and historical financial condition and results of operations have been, and will continue to be, affected by a number of important factors, including the following:

Production and expansion

Our revenue is a function of the volume of coal we produce and sell and the price of coal sold. Coal production volumes are dependent on mine planning and logistics management to extract coal and transport it from our UHG deposit to our onsite coal stockpile or to TKH. We commenced coal production in April 2009 and for the year ended December 31, 2009, we produced and sold approximately 1.8 million tonnes and 1.4 million tonnes of coking coal, respectively. In the four months ended April 30, 2010, we produced and sold approximately 0.7 million tonnes and 0.6 million tonnes of coking coal, respectively. We plan to increase our coal production to approximately 3.8 million tonnes, 7.0 million tonnes, 10.7 million tonnes and 14.7 million tonnes in the four years ending December 31, 2013, respectively.

Average selling prices

Our contracts have pricing terms that are linked to local Chinese market prices and are adjustable periodically. All our coal is currently sold into the Chinese market. Unlike seaborne coking coal prices, which relatively rigidly follow settlements between Australian producers and Japanese consumer over the fiscal year in Japan, domestic Chinese prices are subject to ongoing negotiation and adjustment according to market dynamics. The far larger size and fragmentation of the Chinese market results in a more fluid pricing system. Factors such as the volume of coking coal produced that is used in the Chinese markets (which is impacted by such factors as the development of new coking coal mines (both in Mongolia and China), the closure of old mines, the discovery of new coking coal deposits and the expansion of current mine operations, constraints on the supply of coking coal due to limited transportation networks and the specific demands of coking coal end-users significantly affect our average selling prices. Pursuant to our customer contracts, average selling prices are based on existing market prices reviewed from time to time subject to a price floor. The contract may be terminated by us or Leighton for cause, or it may be terminated by mutual agreement in writing.

Before 2004, hard coking coal prices were relatively stable, staying within the US$40-50 per tonne band. Beginning 2005, however, prices began rising rapidly, driven primarily by the strong demand and fast growth of the Chinese economy. This was particularly evident during the Track Record Period, with prices increasing 206.1% to US$300 per tonne from 2007 to 2008. Due to the global recession, this spike in coal prices was reversed in 2009, decreasing 57.0% to US$129 per tonne, but recovering in 2010 with the stabilization of the market and the revival of demand in China, increasing 86.0% to US$240 per tonne.

We sold our first batch of coking coal at a selling price of approximately US$51 per tonne in April 2009. For the four months ended April 30, 2010, we sold our coking coal at an average selling price of US$54.77 per tonne. We believe this increase reflects not only improved market prices but also of the proven quality of our coking coals, the consistency at which we have been able to produce our coking coals, our sales strategy and general market pricing trends in the Chinese coking coal market.

Historically, the average selling prices for the coking coal we deliver to TKH includes a US$18 transportation fee. We have historically priced our coal with and without this fee, depending on whether the customer provides or we provide the transportation of our coking coal from our UHG mine to TKH. For the year ended December 31, 2009 and the four months ended April 30, 2010, approximately 45% and 34% of our coal sales included transportation fees as a component of sales price, respectively. The customers are solely responsible for the transportation from TKH to their respective end markets. They do not disclose the transportation cost details to us, therefore we do not have information on their costs. The remainder did not include transportation fees. In the future, we expect to include transportation costs in substantially all our pricing as our paved road and railway become operational.

Mining costs

We cooperate with Leighton, as our mining contractor and work closely with them in all aspects of our coal mining operations. We entered into a long-term contract with them to undertake overburden removal, coal extraction and mine reclamation activities. We have two components of mining costs: 1) direct costs incurred by us and 2) costs related to our mining contractor. Direct costs incurred by us primarily include fuel costs, power generation costs, labor costs, employee related expenses (onsite accommodations) and drilling and blasting expenses. Costs relating to our mining contractor include plant rate, wages of our mining contractor's expatriate staff and overhead and a contractor fee. Plant rate primarily includes costs related to the depreciation, repair and maintenance of the mining equipment used at our UHG mine and also includes costs associated with major repair provisions, insurance and financing costs. The contractor fee is proportional to the mining contractor's agreed investment in the mining equipment, supplies and infrastructure used at our UHG mine. Mining costs represent and will continue to represent a significant portion of our cost of revenue. For the year ended December 31, 2009, the mining costs are US$24.5 million. Of these costs, 47%

were direct costs incurred by us and 53% were costs related to our mining contractor. While for the four months ended April 30, 2010, our mining costs were US$15.2 million. Of these costs, 52% were direct costs incurred by us and 48% were costs related to our mining contractor.

Ownership of mining equipment

Pursuant to our agreement with Leighton, we do not own any of the principal mining equipment at our UHG mine. Therefore, we do not directly incur depreciation expenses related to the excavators, loaders, graders, bulldozers, dump trucks and other principal mining equipment. Depreciation expenses associated with the Leighton-sourced equipment are covered by the plant rate under mining costs.

Transportation costs

Transportation costs are costs associated with the transportation of our coking coals from our UHG coal stockpile to TKH trans-shipment stockpile by our own fleet of coal hauling trucks. Costs associated with repair and maintenance and depreciation of our coal hauling trucks are also included in transportation costs. In the four months ended April 30, 2010, transportation costs included fees paid to third-party coal trucking contractors for their provision of coal trucking services from our UHG mine to our TKH coal trans-shipment facility. We intend to continue to use coal trucking contractors in the near future to transport our coking coals to TKH.

Fuel costs

We directly bear the costs related to the use of fuel in our mining operations and for the coal hauling trucks owned by us for coal transport from our UHG mine to TKH. Fuel costs are included in both mining costs and transportation costs. From April 1, 2009 to December 31, 2009, fuel costs represented approximately 37% of transportation costs and approximately 21% of mining costs. Our average fuel costs for the year ended December 31, 2009, and the four months ended April 30, 2010 were US$0.9 million and US$1.7 million per month, respectively. The average price for fuel during the year ended December 31, 2009 and the four months ended April 30, 2010 were US$1.06 and US$1.00 per liter, respectively. The price of fuel fluctuates and we do not engage in any fuel price hedging contracts. Consequently, there can be no assurance that we would be able to procure fuel at historical prices. In addition, as we intend to significantly expand both our mining production, which necessitates the use of additional fuel consuming equipment, and our coal trucking transportation fleet, we anticipate fuel costs to increase.

Increased headcount

Our headcount has increased significantly over the Track Record Period. As of December 31, 2007, 2008, 2009 and April 30, 2010, we had 6, 45, 700 and 820 employees, respectively. As a result, expenses associated with increased headcount have significantly increased.

Critical Accounting Policies

Critical accounting policies are those that require our management to exercise judgment and to make estimates that would yield materially different results if our management applied different assumptions or made different estimates. These accounting policies are set forth in note 30 to our combined financial information included in Appendix I to this prospectus. The preparation of our financial information pursuant to IFRS requires our management to adopt accounting policies and make estimates and assumptions that affect the amount reported in our financial information. These estimates and assumptions are continually evaluated by management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates and assumptions. We have identified the following accounting policies as critical to an understanding of our financial condition and results of operations.

Reserves

Our coal reserves estimates are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. Reserve estimates are updated at regular basis and have taken into account recent production and technical information about the relevant coal deposit. In addition, as prices and cost levels change from year to year, the estimate of coal reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortization rates.

Despite the inherent imprecision in these estimates, they are used in determining depreciation and amortization expenses and impairment loss. Depreciation and amortization rates are determined based on estimated coal reserve quantity (the denominator) and capitalized costs of mining structures and mining rights (the numerator). The capitalized cost of mining structures and mining rights are amortized based on the units produced.

Useful lives of property, plant and equipment

We determine the estimated useful lives of, and related depreciation charges for, our property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and function. It could change significantly as a result of significant technical innovations and our competitors' reactions to industry cycles. We will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of assets

We review the carrying amounts of assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, we prepare a discounted future cashflow analysis to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of the impairment loss and affect our net asset value.

An increase or decrease in the above impairment loss would affect the net profit in future years.

Obligation for rehabilitation

The estimation of final rehabilitation and mine closure costs involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. We consider factors including future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of rehabilitation and mine closure works to be performed. Determination of the effect of each of these factors involves our judgment and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate we use may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of market borrowing rates and the rate of inflation. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of rehabilitation activities), the revisions to the obligation will be recognized at the appropriate discount rate.

Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses, tax credits carried forward and deductible temporary differences are recognized and measured based on the expected manner of realization or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred assets, expected taxable profits are estimated which involves a number of assumptions relating to our operating environment and require a significant level of judgment exercised by the directors. Any change in such assumptions and judgment would affect the carrying amounts of deferred tax assets to be recognized and hence the next profit in the future years.

Description of Selected Statement of Comprehensive Income Line Items

Revenue

Revenue is generated from the sale of our coking coal. Revenue from coking coal sales represents the amounts received and receivable for the coking coal sold. Revenue from coking coal sales reflects the selling prices and sales volumes of our coking coal. In April 2009, we commenced the production and sale of coking coal.

Cost of revenue

Our cost of revenue consists primarily of mining costs, processing costs, transportation costs and others. See "– Factors Affecting Results of Operation and Financial Condition – Mining costs".

Processing costs will primarily include the costs associated with the operations of our coal handling and washing plant.

Transportation costs are costs associated with the transportation of our coking coals from our UHG coal stockpile to TKH trans-shipment stockpile by our own fleet of coal hauling trucks. Costs associated with fuel costs, repair and maintenance and depreciation of our coal hauling trucks are also included in transportation costs.

The following table presents, for the periods indicated, individual costs of revenue in terms of amount and percentages of our total cost of revenue:

	For the year ended December 31,									For the four months ended April 30,					
	2007			2008			2009			2009			2010		
	US$	%	USD per tonne	US$	%	USD per tonne	US$	%	USD per tonne	US$	%	USD per tonne	US$	%	USD per tonne
											(unaudited)				
Mining costs	–	–	–	–	–	–	24,500,450	63.3	17.6	45,434	60.0	17.2	15,214,990	73.5	25.9
Transportation costs	–	–	–	–	–	–	7,999,950	20.7	5.8	19,914	26.3	7.5	2,471,390	11.9	4.2
Others	–	–	–	–	–	–	6,181,928	16.0	4.5	10,416	13.7	4.0	3,026,672	14.6	5.1
Total	–	–	–	–	–	–	38,682,328	100.0	27.9	75,764	100.0	28.7	20,713,052	100.0	35.2
Sales volume (tonne)			–			–			1,389,071			2,640			588,302

Note:

(1) Others include royalties, customs fees, road maintenance expenses (associated with the existing coal trucking road) and others.

Mining costs include depreciation associated with the Leighton-sourced equipment of US$3.0 million and US$1.9 million for the year ended December 31, 2009 and the four months ended April 30, 2010, respectively.

A royalty at the rate of 5% is payable in respect of the sales value of all products extracted pursuant to a mining license that are sold, shipped for sale, or otherwise used. We paid US$3.3 million and US$1.6 million for the year ended December 31, 2009 and four months ended April 30, 2010, respectively, as royalty to the Government of Mongolia.

The following table summarizes our mining and processing cash operating cost (exclude road or rail transportation costs or selling, general and administrative costs):

	2009	2010	2011	2012	2013	2014
ROM Coal (000 tonnes, adb)	1,800	3,782	7,003	10,729	14,722	15,247
Mining & Operations						
Mining	$16.95	$20.90	$24.85	$ 28.82	$ 21.32	$ 21.28
Coal Processing/Handling*	–	$ 1.13	$ 3.60	$ 3.74	$ 3.00	$ 3.52
Total ($/ROM t)	**$16.95**	**$22.03**	**$28.45**	**$ 32.56**	**$ 24.32**	**$ 24.80**

* *Includes all processing, handling, water and power supply, and distribution costs.*

Gross profit

Gross profit is equal to revenue less cost of revenue.

Other revenue

Prior to April 2009, our mining professionals provided consulting services for the year ended December 31, 2008 and in the first four months of the year ended December 31, 2009. In addition, other revenue also included transportation income for the year ended December 31, 2009 related to transportation services provided to third parties.

Administrative expenses

Our administrative expenses relate primarily to management fees, staff costs, depreciation and amortization of office equipment, consultancy and professional fees and other expenses. The following table presents, for the periods indicated, individual administrative expenses in terms of amount and as a percentage of our total administrative expenses:

	For the year ended December 31,						For the four months ended April 30,			
	2007		2008		2009		2009		2010	
	US$	%	US$	%	US$	%	US$ (unaudited)	%	US$	%
Administrative expenses										
Management fee	–	–	1,510,903	37.3	2,357,208	22.6	349,794	10.4	826,195	11.7
Staff costs	75,132	17.0	378,829	9.4	1,422,668	13.7	370,967	11.1	1,474,319	20.9
Consultancy and professional fees	3,311	0.7	217,803	5.4	2,422,658	23.2	2,069,164	61.8	98,792	1.4
Depreciation and amortization	11,035	2.5	38,633	1.0	505,614	4.8	59,662	1.8	370,327	5.2
Others[1]	353,151	79.8	1,897,624	46.9	3,718,945	35.7	497,861	14.9	4,297,396	60.8
Total	442,629	100.0	4,043,792	100.0	10,427,093	100.0	3,347,448	100.0	7,067,029	100.0

Note:

(1) Others include meal allowances, travelling expenses, rental fee, community support expenses and other expenses.

Other net expenses

Other net expenses included write off of construction in progress and the net loss on disposal of property, plant and equipment. In the year ended December 31, 2007, we wrote off US$3.5 million, almost all of which relate to the write off in connection with the transfer of the five licenses pursuant to the Mineral License Transfer Agreement representing the drilling and exploration expenditures that were capitalized relating to these five licence areas.

Net finance (income)/costs

Net finance (income)/costs are the total of finance income primarily derived from interest paid on bank deposits and net foreign exchange gains and finance costs primarily consist of interest paid on borrowings less capitalized interest and net foreign exchange losses. Interest expenses were capitalized at a rate of approximately 0%, 5%, 4% and 13% per annum for the three years ended December 31, 2009 and the four months ended April 30, 2010, respectively. Interest expenses related primarily to our loans from domestic Mongolian banks, shareholder loans and international banks. Foreign exchange gains and losses are related to the fluctuations in exchange rates between MNT, RMB and U.S. dollar denominated payables, receivables and cash at bank and in hand.

Income tax

We are subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which we or our subsidiaries operate.

Results of Operations

We were in a pre-operation stage from the beginning of the Track Record Period to April 2009. Although we incurred expenses prior to commencing mining operations, we did not begin to recognize revenues from coal sales until April 2009. Accordingly, we have limited historical results of operations that may not be indicative of future operating results.

Four months ended April 30, 2010 compared to the four months ended April 30, 2009

Revenue

For the four months ended April 30, 2010, we sold approximately 0.6 million tonnes of coking coal to 5 customers at an average selling price of US$54.77 per tonne resulting in revenues of US$32.3 million. For the four months ended April 30, 2010, approximately 34% of our coal sales included transportation fees. The remainder did not include transportation fees. We commenced coal production in April 2009. As a result, for the four months ended April 30, 2009, we sold 2,640 tonnes of coking coal. The revenue for the four months ended April 30, 2009 was US$119,843.

Cost of revenue

Our cost of revenue increased from US$75,764 for the four months ended April 30, 2009 to US$20.7 million for the four months ended April 30, 2010. This is primarily due to our sales of 2,640 tonnes of coking coal for the four months ended April 30, 2009 and sales of 0.6 million tonnes of coking coal for the four months ended April 30, 2010.

Gross profit

As a result of the foregoing, gross profit was US$44,079 for the four months ended April 30, 2009 and US$11.5 million for the four months ended April 30, 2010. The gross profit margin for the four months ended April 30, 2010 was 35.8%.

Our gross profit margin for the four months ended April 30, 2010 decreased to 35.8% from 42.3% in the year ended December 31, 2009. This was primarily due to a lower level of coal sales in the first quarter due to seasonality, which resulted in having fixed costs spread over a lower volume of coal sold. In addition, as we have been continually increasing our production capacity, we were producing more coking coal on a daily basis. As a result, fixed costs during the four months ended April 30, 2010 were greater than the fixed costs in the year ended December 31, 2009.

Administrative expenses

Administrative expenses increased 111.1% from US$3.3 million for the four months ended April 30, 2009 to US$7.1 million for the four months ended April 30, 2010. This increase was primarily due to an increase in management fee due to increase in revenues, consultancy and professional fees, and an increase in headcount from 206 employees in the four months ended April 30, 2009 to 820 employees for the four months ended April 30, 2010.

Net finance (income)/costs

For the four months ended April 30, 2010, we had net finance income of US$1.8 million primarily as a result of a foreign exchange gain due to appreciation of the MNT. For the four months ended April 30, 2009, we had net finance costs of US$1.5 million primarily as a result of a foreign exchange loss due to depreciation of the MNT.

Income tax

We incurred income tax expenses of US$1.2 million for the four months ended April 30, 2010. Deferred tax income of US$1.0 million was recognized in relation to tax losses for the four months ended April 30, 2009.

Profit/(loss) for the period

As a result of the foregoing, we made a profit of US$5.0 million for the four months ended April 30, 2010 compared to a loss of US$3.8 million for the four months ended April 30, 2009. For the four months ended April 30, 2010, our net profit margin was 15.5%.

Year ended December 31, 2009 compared to the year ended December 31, 2008

Revenue

For the year ended December 31, 2009, we sold approximately 1.4 million tonnes of coking coal to four major customers at an average selling price of US$48.3 per tonne resulting in revenues of US$67.0 million. For the year ended December 31, 2009, approximately 45% of our coal sales included transportation fees. The remainder did not include transportation fees. We generated revenues of US$0 for the year ended December 31, 2008.

Cost of revenue

We commenced the production and sale of coking coal in April 2009 and incurred cost of revenue of US$38.7 million for the year ended December 31, 2009.

Gross profit

As a result of the foregoing, gross profit was US$28.3 million for the year ended December 31, 2009. The gross profit margin for the year ended December 31, 2009 was 42.3%.

Other revenue

Other revenue for the year ended December 31, 2009 consisted of transportation income of US$55 thousand and consulting fees of US$15 thousand. Other revenue for the year ended December 31, 2008 consisted of consulting fees of US$81,000.

Administrative expenses

Administrative expenses increased 160.0% from US$4.0 million for the year ended December 31, 2008 to US$10.4 million for the year ended December 31, 2009. This increase was primarily due to an increase in consultancy and professional fees, the commencement of our coal mining operation in April 2009 and an increase in headcount from 45 employees in the year ended December 31, 2008 to 700 employees for the year ended December 31, 2009.

Other net expenses

Other net expenses for the year ended December 31, 2008 and 2009 were primarily due to the disposal of office equipment.

Net finance costs

Net finance costs increased 218.2% from US$1.1 million for the year ended December 31, 2008 to US$3.5 million for the year ended December 31, 2009. This increase was primarily due to an increase in foreign exchange loss due to depreciation of the MNT against the U.S. dollar and borrowings.

Income tax

As we commenced the production and sale of coking coal in April 2009, we incurred income tax expenses of US$4.1 million for the year ended December 31, 2009. Deferred tax income of US$1.5 million was recognized in relation to tax losses for the year ended December 31, 2008.

Profit/(loss) for the year

As a result of the foregoing, we made a profit of US$10.3 million for the year ended December 31, 2009 compared to a loss of US$3.6 million for the year ended December 31, 2008. For the year ended December 31, 2009, our net profit margin was 15.3%.

Year ended December 31, 2008 compared to the year ended December 31, 2007

Other revenue

Other revenue for the year ended December 31, 2008 was related to consulting services provided to third parties by our mining personnel. We generated US$0 in revenues for the year ended December 31, 2007.

Administrative expenses

Administrative expenses increased from US$0.4 million for the year ended December 31, 2007 to US$4.0 million for the year ended December 31, 2008. This increase was primarily due to an increase in management fees and staff costs. Management fees increased as we entered into the Management Agreement with MCS Holding on February 1, 2008. Staff costs increased because headcount increased from six employees for the year ended December 31, 2007 to 45 employees for the year ended December 31, 2008.

Other net expenses

Other net expenses were US$8.6 thousand for the year ended December 31, 2008 primarily due to a net loss on disposal of property, plant and equipment. Other net expenses were US$3.5 million for the year ended December 31, 2007 primarily due to a write off of construction in progress and a net loss on disposal of property, plant and equipment. In February 2007, the Parliament of Mongolia declared that the six mining licenses we originally held were Mineral Deposits of Strategic Importance under the 2006 Minerals Law. Subsequent to February 2007, the Group entered into various discussions with the Government of Mongolia and considered that the capitalized drilling and exploration expenditures in relation to the six mining licenses would no longer bring future economic benefits to the Group. Accordingly, the Group wrote off the carrying amount of the relevant capitalized drilling and exploration expenditures to profit or loss in 2007.

Net finance costs

Net finance costs increased from US$23 thousand for the year ended December 31, 2007 to US$1.1 million for the year ended December 31, 2008 primarily due to an increase in foreign exchange loss due to the depreciation of the MNT.

Income tax

As we have not commenced our production and sale of coal in 2007 and 2008, deferred tax income of US$0.9 million and US$1.5 million were recognized primarily in relation to tax losses for the years ended December 31, 2007 and 2008 respectively.

Loss for the year

As a result of the foregoing, we incurred a loss of US$3.6 million for the year ended December 31, 2008 and a loss of US$3.0 million for the year ended December 31, 2007.

Liquidity and Capital Resources

Historically our cash needs have been related primarily to costs associated with the expert studies conducted in connection with the development of our mine and related infrastructure, the acquisition of motor vehicles and transport equipment, drilling activities, gravel road maintenance and the construction of mine camp and supporting infrastructure. We have secured our cash resources from shareholder financings, bank loans and operating activities. Our policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that we maintain sufficient cash reserves to meet our liquidity requirements in the short and long term. The Directors are of the view that our internally generated cash flows, together with the available banking facilities, are sufficient to meet our financial obligations when they fall due. We will continue to use existing bank facilities. See "Risk Factors – Risks Relating to Our Business and Industry – We intend to use bank borrowings, but we may not be able to comply with the covenants under these borrowings or refinance such borrowings when they mature".

We plan to fund capital expenditures and related expenses and our working capital needs described in this prospectus with cash from operating activities, net proceeds from the Global Offering and short-term and long-term borrowings.

For more details related to risks associated with our liquidity and capital resources, see "Risk Factors – Risks Relating to Our Business and Industry – We are dependent on future cash flows generated from our business and obtaining additional financing to support our business operations, expand our production capacity and to continue as a going concern".

Working Capital

The following table sets out our current assets and current liabilities as at December 31, 2007, 2008 and 2009, April 30, 2010 and July 31, 2010:

	As of December 31,			As of April 30,	As of July 31,
	2007	2008	2009	2010	2010
			(US$)		
Current assets					
Inventories	–	15,190	7,661,009	14,109,773	5,996,955
Trade and other receivables	1,806	4,541,146	20,036,053	15,652,034	40,868,511
Cash at bank and in hand	969,081	3,790,797	2,371,030	15,169,202	38,171,372
Total	970,887	8,347,133	30,068,092	44,931,009	85,035,838
Current liabilities					
Short-term borrowings and current portion of long-term borrowings	2,950,000	3,000,000	24,200,000	40,000,000	20,416,700
Trade and other payables	17,588	15,931,318	17,106,673	45,302,287	47,991,588
Current taxation	–	–	794,999	1,815,613	4,961,216
Total	2,967,588	18,931,318	42,101,672	87,117,900	73,369,504
Net current (liabilities)/assets	(1,996,701)	(10,584,185)	(12,033,580)	(42,186,891)	11,666,334

Our net current liability position during the Track Record Period mainly reflected the high levels of our short-term borrowings to meet part of the increased demands for down payments and prepayments for the expenditures on construction in progress and purchase of property, plant and equipment.

As of July 31, 2010, we had net current assets of US$11.6 million compared to net current liabilities of US$42.2 million as of April 30, 2010. This was primarily due to an increase in trade and other receivables and cash at bank and in hand and a decrease in short-term borrowings and current portion of long-term borrowings. Our trade and other receivables increased from US$15.7 million as of April 30, 2010 to US$40.9 million as of July 31, 2010 primarily due to increased trade receivables from the sale of coal, pre-paid expenses, VAT receivables and prepaid expenses paid to our mining contractor. Cash at bank and in hand increased from US$15.2 million as of April 30, 2010 to US$38.2 million as of July 31, 2010 was primarily due to the draw downs on our bank facilities. Short-term borrowings and current portion of long-term borrowings decreased from US$40.0 million as of April 30, 2010 to US$20.0 million as of July 31, 2010 primarily as a result of the amendment of our Standard Bank loan facility from a US$30.0 million short-term loan into a US$75 million medium-term loan, which reduced the current portion of this loan from US$30 million to US$20 million.

Our net current liabilities increased 250.6% from US$12.0 million as of December 31, 2009 to US$42.2 million as of April 30, 2010. This increase was primarily due to an increase in short-term borrowings and the current portion of long-term borrowings, and an increase in trade and other payables.

Our net current liabilities increased 13.2% from US$10.6 million as of December 31, 2008 to US$12.0 million as of December 31, 2009. This increase was primarily due to increased borrowings, increased trade and other payables which was partially offset by an increase in trade and other receivables and inventories. Our increase in borrowings was primarily due to the current portion on the drawdown of a two-year US$30.0 million loan facility from Standard Bank. The proceeds of this loan were used to finance the expenditures related to our mine infrastructure development projects. Trade and other payables increased primarily for the construction of our mine camp and workshop, fuel expenses and the payment of Leighton's monthly incurred costs carried over to 2010. Inventories significantly increased as we began production of coal in April 2009, and trade and other receivables related primarily to coal sales, loan to a shareholder and VAT receivables.

Our net current liabilities increased from US$2.0 million as of December 31, 2007 to US$10.6 million as of December 31, 2008. This increase was primarily due to an increase in trade and other payables of US$15.8 million which was partially offset by an increase in trade and other receivables of US$2.8 million and an increase in cash at bank and in hand of US$2.8 million. The increase in trade and other payables were primarily due to a prepayment for coal sales by one of our customers. The increase in trade and other receivables was primarily due to VAT receivables, security deposits paid to our mining contractor and prepayments.

Taking into account the estimated net proceeds from the Global Offering, available banking facilities and cash flows from our operations, our Directors confirm that we have sufficient working capital for at least 125% of our planned working capital needs for the next 12 months or more from the date of this prospectus. See "– Capital Expenditure".

Cash Flow Data

The following table sets below certain information regarding our combined cash flows for the periods indicated:

	Year ended December 31,			Four months ended April 30,
	2007	2008	2009	2010
	(US$)			
Net cash (used in)/from operating activities	(1,408,864)	8,100,092	(4,023,882)	35,635,772
Net cash used in investing activities	(3,511,913)	(25,973,501)	(62,061,317)	(24,181,922)
Net cash generated from financing activities	5,835,253	20,708,968	62,683,704	3,256,655
Net increase/(decrease) in cash and cash equivalents	914,476	2,835,559	(3,401,495)	14,710,505
Cash and cash equivalents at beginning of the year/period	54,658	969,081	3,790,797	371,030
Effect of foreign exchange rate changes	(53)	(13,843)	(18,272)	87,667
Cash and cash equivalents at end of the year/period	969,081	3,790,797	371,030	15,169,202

Cash Flows from Operating Activities

Net cash (used in)/from operating activities was US$(1.4) million, US$8.1 million, US$(4.0) million and US$35.6 million in the three years ended December 31, 2009 and the four months ended April 30, 2010, respectively.

For the four months ended April 30, 2010, net cash (used in)/from operating activities was US$35.6 million primarily as a result of an increase in working capital of US$28.0 million and profit before taxation of US$6.2 million. Changes in working capital were due to an increase in trade and other payables of US$30.3 million and a decrease in trade and other receivables of US$4.2 million, which was partially offset by an increase in inventories of US$6.4 million. Normally, according to the respective sales contracts, we demand prepayment in advance from our customers. During the four months ended April 30, 2010, we received prepayments of approximately US$46.6 million in aggregate from Qinghua, Winsway, FengDa, Tangshan, Huazhen, Wulate Zhongoi and Hengtong and utilized approximately US$23.7 million, while left a balance of receipt in advance amounting to US$31.4 million.

For the year ended December 31, 2009, we used net cash in operating activities of US$4.0 million, primarily due to the effects of changes in working capital by US$19.2 million and income tax paid of US$1.3 million, which was partially offset by a profit before taxation of US$14.4 million representing approximately nine months of the production and sale of coking coal from our UHG deposit mainly adjusted for depreciation and amortization of US$1.9 million. Changes in working capital mainly included (i) an increase in trade and other receivables of US$7.0 million, primarily due to increased trade receivables, as we have commenced production and sales of coals in April 2009; (ii) an increase in coking coal inventories of US$6.9 million, primarily due to the commencement of mining of coals in 2009; (iii) a decrease in trade and other payables of US$4.6 million, primarily due to the decrease of the prepayment for coal sales by customers. Normally, according to the respective sales contracts, we demand prepayment in advance from our customers. During the year ended December 31, 2009, we received prepayments of US$31.6 million in aggregate from Qinghua, Winsway, Puxing and Huazhen and utilized US$37.7 million, while left a balance of receipt in advance amounting to US$8.5 million.

For the year ended December 31, 2008, we generated net cash from operating activities of US$8.1 million, primarily due to the effects of changes in working capital, which was partially offset by a loss before taxation of US$5.1 million. Changes in working capital mainly included (i) an increase in trade and other payables of US$15.8 million, primarily due to the prepayment for coal sales by one of our customers; (ii) an increase in trade and other receivables of US$2.8 million, primarily due to the increase of security deposits paid to our mining contractor, VAT receivables and prepayments. Normally, according to the respective sales contracts, we demand prepayment in advance from our customers. During the year ended December 31, 2008, we received prepayment of US$14.6 million from Qinghua.

For the year ended December 31, 2007, we used net cash in operating activities of US$1.4 million primarily as a result of a loss before taxation of US$4.0 million primarily due to a write off of construction in progress of US$3.5 million, and the effects of changes in working capital. Changes in working capital mainly included a decrease in trade and other payables of US$1.0 million.

Cash Flows from Investing Activities

Net cash used in investing activities were US$3.5 million, US$26.0 million, US$62.1 million and US$24.2 million for the three years ended December 31, 2009 and the four months ended April 30, 2010, respectively.

For the four months ended April 30, 2010, net cash used in investing activities was US$24.2 million primarily as a result of payments for the acquisition of property, plant and equipment and construction in progress, which was partially offset by a repayment of US$2.3 million due from a related party and the release of a US$2.0 million time deposit.

For the year ended December 31, 2009, net cash used in investing activities was US$62.1 million primarily as a result of expenditures on the payments for construction in progress and purchase of property, plant and equipment of US$58.6 million, time deposits of US$2.0 million and loan to a shareholder of US$2.3 million. The principal property, plant and equipment were temporary offices/housing at our mine site, loaders used in our coal stockpile, small and light transport vehicles, diesel generators, weighing station equipment and mining structures.

For the year ended December 31, 2008, net cash used in investing activities was US$26.0 million primarily as a result of expenditures on the payments for construction in progress and purchase of property, plant and equipment of US$25.9 million. The principal property, plant and equipment purchased were primarily the 107 coal hauling trucks we use for coal transport to TKH.

For the year ended December 31, 2007, net cash used in investing activities was US$3.5 million primarily as a result of expenditures for drilling and exploration.

Cash Flows from Financing Activities

Net cash generated from financing activities was US$5.8 million, US$20.7 million, US$62.7 million and US$3.3 million for the three years ended December 31, 2009 and the four months ended April 30, 2010, respectively.

For the four months ended April 30, 2010, net cash generated from financing activities was US$3.3 million, primarily as a result of proceeds from borrowings of US$19.1 million, which was partially offset by the repayment of borrowings of US$13.3 million and interest paid of US$2.5 million.

For the year ended December 31, 2009, net cash generated from financing activities was US$62.7 million primarily as a result of proceeds from new borrowings of US$53.3 million and proceeds from share issuances of US$18.8 million and proceeds from customers of US$14.7 million, which was partially offset by the repayment of borrowings of US$22.1 million and interest paid of US$1.9 million.

For the year ended December 31, 2008, net cash generated from financing activities was US$20.7 million primarily as a result of proceeds from share issuances of US$20.8 million and proceeds from new borrowings of US$3.6 million, which was partially offset by the repayment of borrowings of US$3.6 million.

For the year ended December 31, 2007, net cash generated from financing activities was US$5.8 million primarily as a result of proceeds from share issuances of US$5.0 million and proceeds from new borrowings of US$3.0 million, which was partially offset by the repayment of borrowings of US$2.1 million.

Trade and Other Receivables

Our trade receivables represent receivables from the sales of coal. For the year ended December 31, 2009 and the four months ended April 30, 2010, we had four major customers and eight customers, respectively. Several of these customers pre-paid for their coking coals and the remainder for their coking coals are due on demand. Trade receivables that were past due but not impaired as of December 31, 2009 and April 30, 2010 amounted to US$8.5 million and US$1.3 million, respectively. Management believes that no impairment allowance is necessary in respect of receivables that were past due but not impaired as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

During the Track Record Period, we had a total of eight customers. These customers were either coal traders or end-use customers. The coal traders typically prepaid for their shipments of coal and no credit terms were granted to the customers during the Track Record Period, although for competitive reasons we have been willing to extend credit terms on a short term basis. While we have no established credit terms on sales because all of is sales contracts are paid in advance, when monthly shipments exceed the initially contracted amount, accounts receivables will arise and be paid in the next month by our customers.

As of December 31, 2009, two of our customers made substantial but not full advance payments for their coal purchases. For the year ended December 31, 2009, these two customers made advance payments of approximately US$20.8 million, while sales to them amounted to approximately US$25.5 million. As a result, trade receivables due from these two customers were US$4.7 million as of December 31, 2009. As of April 30, 2010, the receivables due from these two customers were fully paid. For the trade receivables as at December 31, 2009 and April 30, 2010, our customers have settled all balance by the end of June 2010.

We note that VAT at a rate of 10% is payable in respect of all goods sold, work performed and services provided within Mongolia. VAT is also payable in respect of goods imported into Mongolia and in respect of certain service fee payments made by Mongolian taxpayers to non-resident service providers. In the years ended December 31, 2008 and 2009, we paid VAT to the Government of Mongolia on imported equipment, materials and certain service fee payments in relation to the construction of our mine site.

Our other receivables included VAT receivables. In 2009, the Mongolian Tax Laws were amended to precluded producers and exporters of unfinished mineral products from claiming back VAT. Under the aforementioned amendments to the Value-Added Tax Law, the Government of Mongolia is to determine the types “finished mineral products,” however no such classification is available as of this date. Effective as of July 21, 2009, any VAT paid by the producer of mineral products cannot be claimed back – i.e., the producer is deemed to be the end-user and must bear the burden of VAT paid to produce such products. Finished products that are exported are, however, zero-rated and VAT paid to produce such products may be claimed back. As of December 31, 2008, 2009 and April 30, 2010, our VAT receivables were US$1.7 million, US$5.7 million and US$9.7 million, respectively. The Group is currently applying to the Mongolian tax authority for the settlement of the non mining related VAT receivables outstanding at April 30, 2010. Based on the current available information the Group anticipates full recoverability of amounts due on account by 2010.

Taxation

Our income tax rate for the year ended December 31, 2009 and the four months ended April 30, 2010 was 10% for the first MNT3 billion of taxable income and 25% for amounts in excess thereof. During the Track Record Period, we were not subject to any overseas taxation.

Income tax expenses for the year ended December 31, 2009 and the four months ended April 30, 2010 can be reconciled to profit before income tax as follows:

	Year ended December 31, 2009	Four months ended April 30, 2010
	(US$)	
Profit before income tax	14,380,887	6,229,077
Notional tax on profit before taxation	2,990,330	1,360,876
Tax effect of non-deductible items[1]	1,134,672	399,185
Tax effect of non-taxable items[1]	(83,199)	(735,097)
Tax loss not recognized	68,920	192,640
Income tax expenses	4,110,723	1,217,604

Notes:

(1) *Non-deductible items and non-taxable items refer to mainly the unrealized exchange losses and gains during the Track Record Period.*

Our effective income tax rate during the Track Record Period was 28.6% for the year ended December 31, 2009 and 19.5% for the four months ended April 30, 2010. The decrease in effective income tax rate was primarily due to the tax effect of non-deductible and non-taxable items, which mainly represented the exchange losses and gains during the Track Record Period.

Our Directors confirm that, as of the Latest Practicable Date, we have made all the required tax filings, have paid all outstanding tax liabilities and are not subject to any dispute or potential dispute with the tax authorities in any applicable jurisdiction. We are in an ongoing consultation with the government with regard to the recoverable VAT receivables outstanding as of the Latest Practicable Date.

Related Party Transactions

All amounts due from and to certain shareholders and related parties, which are non-trade in nature as shown in "Appendix I – Accountants' Report – Note 29," have been settled on or before April 30, 2010. Except for the loans to and from the related parties and the associated interest income/expenses which would not be recurring, the above related party transactions are recurring.

Indebtedness

Borrowings

The table below sets out our borrowings as of the dates indicated and the maturity profile of such borrowings:

	As of December 31,			As of April 30,	As of July 31,
	2007	2008	2009	2010	2010
			(US$)		
Secured	–	–	31,200,000	38,000,000	130,000,000
Unsecured	2,950,000	3,000,000	3,000,000	2,000,000	–
Total	2,950,000	3,000,000	34,200,000	40,000,000	130,000,000
Maturity Profile:					
Due within one year	2,950,000	3,000,000	24,200,000	40,000,000	20,416,667
More than one year, but within two years	–	–	10,000,000	–	35,000,000
Due after two years	–	–	–	–	74,583,333
Total	2,950,000	3,000,000	34,200,000	40,000,000	130,000,000

The borrowings for the year ended December 31, 2007 were shareholder loans which were fully repaid in January 2008.

Due to our business expansion during the Track Record Period, we have relied on both long term and short term borrowings to fund a portion of our capital requirement and working capital needs.

Most of the loans we incurred for the three years ended December 31, 2009, were for working capital needs and short-term capital expenditures, such as the acquisition of the coal hauling trucks, construction of the airport serving our UHG mine and preliminary infrastructure work for our larger projects. For our larger projects, like the coal handling and washing facility, the water supply facility and the power plant, we have secured long-term borrowings. As we only commenced commercial operations in April 2009, our borrowings before this time were largely for short-term projects in order to begin operating our UHG mine. As we believe this kind of financing plan is typical for greenfield projects, we believe there are no issues relating to our ability to obtain longer-term financing in the future.

Our long term loan and short term borrowings increased from US$3.0 million as of December 31, 2007 to US$34.2 million as of December 31, 2009. The increase in our long and short term borrowing was primarily due to the increased funds we used to support our business expansion and capital expenditure.

On July 26, 2008, we borrowed US$3.0 million from Shagdardulam, a third party, for our working capital needs at an interest rate of 12% per annum. This loan was repaid in December 2009. Ms. Shagdardulam is the wife of Mr. Davaanyam, shareholder of Petrovis LLC. Thus, no pledge was required under the loan granted by Ms. Shagdardulam to the Company and the interest rate charged for the loan was the same as charged by commercial banks of Mongolia. See "Laws and Regulations Relating to the Industry – Mongolian Laws Relating to Borrowing and Lending Activities".

On February 16, 2009, we borrowed US$1.0 million from Golomt Bank of Mongolia, at a fixed rate of 12.4%. This loan was guaranteed by one of our shareholders and was fully repaid on February 22, 2010. On July 2, 2009 we borrowed US$1.2 million from Khan Bank of Mongolia, at a fixed rate of 13.2%. This loan is secured by our current fleet of coal hauling trucks and transport land cruisers.

On May 21, 2009, we borrowed US$2.0 million from Quincunx (BVI) Ltd, a subsidiary of Kerry, for our working capital needs at a floating rate linked to LIBOR and this loan matures in May 21, 2010. There is no financial or information covenants in the loan agreement with Quincunx (BVI) Ltd, and no assets were pledged for borrowings under the loan agreement with Quincunx (BVI) Ltd. On May 17, 2010, we fully repaid this loan with internal cash flows. See "Laws and Regulations Relating to the Industry – Mongolian Laws Relating to Borrowing and Lending Activities".

On October 27, 2009, we borrowed US$30.0 million from Standard Bank, at a floating rate linked to LIBOR. This loan matures on April 26, 2011. This loan is secured by our coal stockpile, an assignment of our customer contract with Puxing. For the year ended December 31, 2009, the effective interest rate of this loan was 9.28%. This loan facility includes financial covenants, information covenants and a cross-default provision linked to any of ER LLC's indebtedness. We amended this loan on June 18, 2010, and extended the maturity date to 30 months after the effective date of the loan. Under the amendment, the amount which we can borrow is raised to $75.0 million.

On March 1, 2010, we borrowed US$3.0 million bridge loan from Golomt Bank of Mongolia, at a fixed rate of 12.0%. This loan is secured by the airport building on the airstrip located near our UHG deposit. The proceeds of this loan were used to finance our development projects.

On March 11, 2010, we borrowed US$3.0 million from Khan Bank of Mongolia, at a fixed rate of 14.0%. This loan shares security over our current fleet of coal hauling trucks and transportation land cruisers. This loan matures in June 11, 2010. We borrowed this loan to finance our development projects. This loan has been repaid in full on June 8, 2010.

On May 12, 2010, we entered into a US$180 million term-loan facility arranged by EBRD, one of our Shareholders, at a floating rate linked to LIBOR. This loan was split into two tranches because the first tranche of the loan was a bilateral loan between EBRD and ER LLC and the second tranche was to be a co-financing loan. The terms of these two tranches are not identical. The first tranche of the loan is repayable after a four years in two equal installments in 2015 and 2016, respectively. The second tranche of the loan is repayable after one year in ten equal semi-annual installments starting September 2011. The second tranche of the loan has additional conditions which have been imposed by Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("FMO") and Deutsche Investitions- und EntwicklungsgesellschaftmbH ("DEG"), together with EBRD, the lenders in the second tranche. This loan is secured by certain of our bank accounts, our mining license, our coal handling and washing plant, the 12 MW power plant, an assignment of our EPCM contract with Sedgman relating to our coal handling and washing plant, contract with Leighton relating to coal mining and offtake agreement with Qinghua, and a pledge of shares in ER LLC. Pursuant to this loan facility, EBRD has been granted rights normally given to lenders in a pre-IPO loan including financial covenants, information covenants and the requirement to obtain EBRD's consent for certain corporate acts (including capital expenditure, incurrence of additional indebtedness, mergers and making investments, etc.). In addition, we are required to obtain consent for capital expenditures in excess of US$30 million in any financial year. We are also required to obtain the consent of the lenders if we are to incur short-term debt in excess of US$50 million or indebtedness that is not otherwise permitted by the terms of the loan facility. Pursuant to the loan agreement we are required to comply with certain financial covenant ratios, including limiting our debt service coverage ratio to be not less than 1.5 to 1 after December 31, 2010, maintaining a leverage ratio of less than 3 to 1 after December 31, 2010, maintaining a current ratio of not less than 1.1 to 1 and having a total liabilities to tangible net worth ratio of not more than 2 to 1 after December 31, 2010 for each period of twelve months ending on December 31 (or, if different, on the last day of our Financial Year) and each period of twelve months ending on June 30 (or, if different, on the day falling six months after the last day of our Financial Year). This loan facility also includes a cross-default provision linked to any of ER LLC's indebtedness. If all tranches of this loan were to be drawn, approximately 21.5% of the shares of ER LLC will be pledged to secure this loan facility. See "History, Reorganization and Corporate Structure – Reorganization". We intend to use the proceeds of this loan to fund the construction of our coal handling and washing plant and its supporting infrastructure. As typical of financings of this nature, if not remedied within 30 days of giving notice to EBRD, a breach of any of the restrictive covenants contained in the loan agreement will allow EBRD to declare all or any part of the principal of, and accrued interest on, the Loan to be due and payable on demand. A breach of the restrictive covenants in the EBRD loan facility would trigger the cross-default provisions in all our other existing loans. As of the Latest Practicable Date, we had drawn down US$180 million of this loan facility.

We intend to repay this loan with our cash generated from our operations. Alternatively, if a suitable opportunity is available, we may choose to refinance this loan with other borrowings.

As of July 31, 2010, we had a total of US$256.2 million in banking facilities of which US$130 million had been borrowed. The US$130 million utilized as of July 31, 2010 comprised of US$60 million drawn from the EBRD loan facility and US$70 million from the Standard Bank loan facility. The increase in the drawdown of our loans during the three months ended July 31, 2010 was due to the funding needs relating to our construction projects. From August 1, 2010 to the Latest Practicable Date, we further drew down US$125 million under these two banking facilities. As of the Latest Practicable Date, we had a total of US$256.2 million in banking facilities of which all amounts had been utilized. As of the Latest Practicable Date, this amount was comprised of the US$180 million in borrowings under EBRD loan facility and the US$75 million in borrowings under Standard Bank loan facility.

We confirm that, except as described herein, there have been no material changes to our indebtedness since July 31, 2010.

Contingent liabilities

As of December 31, 2007, 2008, 2009 and April 30, 2010, we had no significant contingent liabilities. Our Directors confirm that as of the Latest Practicable Date, we had no significant contingent liabilities.

Disclaimer

Except as described above, as of July 31, 2010, being the latest practicable date for determining our indebtedness, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Capital Commitments

The following table presents our capital commitments as of the dates indicated.

	As of December 31,			As of April 30,	Capital commitment expected payment schedule			
	2007	2008	2009	2010	Prior to 2010	2011	2012 and beyond	Source of funding
		(US$)		(US$)		(US$)		
Authorised but not contracted for								
Power plant	–	–	–	6,119,278	5,723,284	395,994	–	Existing borrowings and operating cash flow
Wash plant	–	108,114	–	138,114,008	85,630,685	52,483,323	–	Proceeds from the Global Offering/existing borrowings and operating cash flow
Water supply	–	–	–	32,097,877	16,097,877	–	16,000,000	Existing borrowings and operating cash flow
Railway	–	31,013	–	1,420,813	1,420,813	–	–	Proceeds from the Global Offering and Operating cash flow
Sub-total	**–**	**139,127**	**–**	**177,751,976**	**108,872,659**	**52,879,317**	**16,000,000**	
Contracted for								
Property (camp, mine site and workshop)	–	4,343,246	11,222,900	–	–	–	–	N/A
Power plant	–	295,750	32,610,982	27,603,634	27,190,305	413,329	–	Existing borrowings and operating cash flow
Wash plant	–	225,011	16,257,677	22,350,901	22,350,901	–	–	Proceeds from the Global Offering/existing borrowings and operating cash flow
Water supply	–	4,656,117	11,895,903	9,652,491	9,652,491	–	–	Existing borrowings and operating cash flow
Railway	–	61,561	3,826,502	–	–	–	–	Proceeds from the Global Offering and operating cash flow
Others	–	111,687	5,282,580	1,932,695	1,932,696	–	–	Operating cash flow
Sub-total	**–**	**9,693,372**	**81,096,544**	**61,539,721**	**61,126,393**	**413,329**	**–**	
Total	**–**	**9,832,499**	**81,096,544**	**239,291,697**	**169,999,052**	**53,292,646**	**16,000,000**	

Note: "N/A" denotes "not applicable"

The capital commitments as of December 31, 2008 relate the acquisition of trucks and ancillary mining equipment, costs associated with exploration activities and professional studies, construction costs associated with our camp, airport and workshop, and initial costs associated with our paved road, railway, coal handling and washing plant and power plant. The capital commitments as of December 31, 2009, were related to the same items except that commitments associated with our paved road, railway, coal handling and washing plant and power plant were more significant given that we formally commenced construction of those projects in the year ended December 31, 2009. The capital commitments as of April 30, 2010, were related to the same items as aforementioned.

We commenced commercial operations in April 2009. Prior to this time, many basic facilities needed to be completed in order to commence operations. Also, a number of professional feasibility, pre-feasibility and design studies were conducted in order to develop the mine design and plan. As a result, there have been significant fluctuations of capital commitments and capital expenditures during the Track Record Period.

We expect to meet these capital requirements through a combination of operating cashflows, borrowings and proceeds from the Global Offering.

Capital Expenditure

Our capital expenditure generally comprises expenses related to the development of our mine and supporting infrastructure. The costs of expert studies and services are included in each of the respective capital expenditures of each project. The following table shows our historical capital expenditure indicated:

	Year ended December 31,			Four months ended April 30,
	2007	2008	2009	2010
	(US$)			
Coal handling and washing plant	–	339,398	13,573,225	2,505,146
Road	–	–	–	1,475,210
Railway	–	943,688	5,542,841	1,745,070
Water supply	–	4,217,199	8,024,203	3,940,739
Power plant	–	155,713	8,137,469	6,163,481
Property (camp, airport and workshop)	–	2,083,186	12,607,233	2,731,632
Trucks and equipment	–	11,355,669	7,893,247	439,475
Others[1]	3,513,416	8,333,162	7,180,540	9,578,998
Total	3,513,416	27,428,015	62,958,758	28,579,751

Note:

(1) Others include capital expenditures for explorations and studies.

We intend to fund our planned capital expenditure through a combination of the proceeds of the Global Offering, bank loans, and cash flow from operating activities. See "Future Plans and Use of Proceeds".

For the year ending December 31, 2010, our major planned capital expenditures total US$279 million, approximately 80% of which will be funded by bank loans and the remainder to be funded by cash flow from operating activities. Our Directors expect that the remaining capital expenditure will be funded by our operating cash flow and our internal cash resources. Our major planned capital expenditure is expected to include:

- Approximately HK$2,008.9 million (US$258.8 million) for financing our mine and transportation infrastructure development projects, which currently include approximately US$125 million (HK$970.5 million) to finance a portion of our railway project and approximately US$80 million (HK$621.1 million) for our coal handling and washing plant. See "Business – Mining Operations – General";

- Approximately HK$1,607.2 million (US$207.0 million) for acquisitions of companies with existing exploration rights and additional mining assets. As of the Latest Practicable Date, we had not identified any acquisition targets; and

- Approximately HK$401.8 million (US$51.8 million) to fund working capital and other general corporate purposes.

In connection with our current plans for mine and transportation infrastructure development, we expect our anticipated capital expenditure to the year ending December 31, 2013 to be approximately US$1.1 billion to US$1.3 billion, approximately 20% of which would be funded by proceeds from the Global Offering, 50% of which would be funded by borrowings, 30% of which would be funded by our operating cashflows and additional fundraising activities. The foregoing percentages are estimates only and are subject to adjustment to reflect developments in our business and industry.

Market Risks

We are, in the normal course of business, exposed to market risks relating primarily to credit risk, foreign exchange risk, interest rate risk and liquidity risk.

Credit risk

Our credit risk is primarily attributable to our trade and other receivables. Our management monitors the exposures to these credit risks on an ongoing basis.

Given our major customers are reputable and with sound repayment ability, the credit risks of trade receivables are considered low. We closely monitor the amount due from related parties. The receivable amount is expected to be settled in a short period. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

We request pre-payment on our coal sales, but in order to maintain our relations with customers and to diversify our customer base, we have in the past extended credit up to US$5 million. Thus far, we have no exposure to bad debt, and all short term credits have been recovered in full.

Foreign currency exchange risk

During the Track Record Period, 100% of our revenue and approximately 50% of our purchases were denominated in currencies other than MNT, our functional currency. Cash and cash equivalents denominated in foreign currency as of December 31 2007, 2008 and 2009 and April 30, 2010 amounted to US$0.9 million, US$3.6 million, US$2.2 million and US$13.4 million, respectively. Bank borrowings denominated in foreign currency as of December 31, 2007, 2008 and 2009 and April 30, 2010 were US$3.0 million, US$3.0 million, US$34.2 million and US$40 million, respectively.

For the year ended December 31, 2009, approximately 77% of our revenues were denominated in US dollars with the remaining denominated in RMB. For the year ended December 31, 2009, approximately 79%, 13% and 88% of our cost of revenue, operating expenditures and capital expenditures were denominated in US dollars, with the remaining denominated in MNT. For the four months ended April 30, 2010, approximately 57% of our revenues were denominated in US dollars with the remaining denominated in RMB. For the four months ended April 30, 2010, approximately 69%, 21% and 67% of our cost of revenue, operating expenditures and capital expenditures were denominated in US dollars, with the remaining denominated in MNT.

We have not entered into any derivative instruments to manage foreign exchange fluctuations. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

To the extent that we decide to do so in the future, we cannot assure you that any such hedging activities will protect us from fluctuations in exchange rates. See "Risk Factors – Risks Relating to Our Business and Industry – Foreign currency fluctuations could affect expenses and any future earnings".

Interest rate risk

Our exposure to interest rate risk relates primarily to our floating rate bank borrowings, which totaled US$32.0 million as of December 31, 2009. An increase in prevailing interest rates would lead to an increase in interest cost on our short-term borrowings when such debt is rolled over. To date, we have not entered into any type of interest rate agreements or derivatives, to hedge against interest rate fluctuations. To the extent that we do so in the future, we cannot assure you that any future hedging activities will protect us from fluctuations in interest rates.

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. In the management of liquidity risk, we maintain a balance between continuity of funding and the flexibility through the use of borrowings. Our management closely monitors our liquidity position and expects to have adequate sources of funding to finance our projects and operations.

Our Directors have carried out a detailed review of our cash flow forecast for the 18 months ending October 31, 2011. Based on such forecast, our Directors have determined that adequate liquidity exists to finance our working capital and capital expenditure requirements during that period. Our Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realized.

Commodity price risk

Our profitability depends on coal prices. Coal prices are affected by numerous factors such as interest rates, exchange rates, inflation or deflation and global and regional supply and demand. We do not enter into commodity derivative instruments or futures to hedge any potential price fluctuation of coal. Therefore, fluctuations in the prices of coal will have a direct effect on our results of operations.

Summary of Key Financial Ratios During the Track Record Period

Current Ratio

The table below sets forth the our current ratios for the periods indicated:

	As at December 31,			April 30,
	2007	**2008**	**2009**	**2010**
Liquidity ratios				
Current ratio[(1)]	32.7%	44.1%	71.4%	51.6%

Notes:

(1) Current ratio is calculated by current assets divided by current liabilities.

Our current ratio decreased from 71.4% as at December 31, 2009 to 51.6% as at April 30, 2010 primarily as a result of an increase in advance payments from our third-party customers pursuant to our sales contracts from US$8.5 million as at December 31, 2009 to US$31.4 million as at April 30, 2010. We have needed to rely on short term debt financing at the beginning stages of our operations which has also contributed to the significant fluctuations in our current ratio.

Gearing Ratio

The table below sets forth the gearing ratio of our Company for the periods indicated:

	As at December 31,			April 30,
	2007	2008	2009	2010
Gearing ratio[(1)]	N/A	8.4%	30.2%	25.5%

Note:

(1) Gearing ratio is calculated by total debt divided by total assets expressed as a percentage.

We have needed to rely on short term debt financing at the beginning stages of our operations which has resulted in an increased gearing ratio. However, as our assets are now increasing at a greater rate that our total debt levels, we expect our gearing ratio to decrease in future periods.

Trade Receivables

Our trade receivables represent receivables from the sales of our coking coal. The table below sets forth our average trade receivables turnover days for the periods indicated:

	As at December 31,			April 30,
	2007	2008	2009	2010
Trade receivable turnover (days)	N/A	N/A	46	5

Note:

(1) Turnover of trade receivables in days equals trade receivables at the end of the period divided by revenue for the relevant period multiplied by 365 for annual periods and 120 for the four month period.

As we have had limited operations and a limited number of customers, our receivables turnover days varied significantly between the year ended December 31, 2009 and the four months ended April 30, 2010. Given that we are still a start-up and in the midst of establishing relationships with our customers, the turnover ratios are not reflecting normal business turnover conditions.

Inventory analysis

The following table shows a summary of our inventory balance as at the respective balance sheet dates below, as well as the average inventory turnover days:

	December 31,			April 30,
	2007	**2008**	**2009**	**2010**
		(USD'000)		
Materials and supplies	0	15	743	812
Coal	0	0	6,918	13,298
Total	0	15	7,661	14,110
Turnover of average inventory (days)	N/A	N/A	38	49

Note:

(1) Turnover of inventory, in days, is the inventory at the end of the period divided by cost of sales multiplied by 365 for annual periods and 120 for the four month period.

We have had limited operations and are in the process of formulating more efficient inventory policies. We had a lower level of coal sales in the four months ended April 30, 2010 due to seasonality. In addition, as we have been continually increasing our production capacity, we are producing more coal on a daily basis. As a result, our average inventory turnover days for the four months ended April 30, 2010 were higher than our average inventory turnover days for the year ended December 31, 2009. As we commenced coal production in April 2009 and have been continually ramping-up our production capacity, we believe that the average inventory turnover days during the Track Record Period are not indicative of our future performance.

Trade payables

Our trade payables represent the purchase of raw materials and services from our suppliers and contractors. The following table sets out the turnover of our average trade payables for the periods indicated:

	Year ended December 31,			Four months ended April 30,
	2007	**2008**	**2009**	**2010**
		(days)		
Turnover of average trade payables	N/A	N/A	9	23

Note:

(1) Turnover of trade payables in days equals trade payables at the end of the period divided by cost of sales for the relevant period multiplied by 365 for annual periods and 120 for the four month period.

During the Track Record Period, credit terms granted by our suppliers and contractors were in a range of no more than 90 days, depending on our relationship with the particular supplier or contractor. Our turnover of average trade payables increased in the Track Record Period primarily due to delay of EBRD loan facility. As of June 30, 2010, we have not experienced any dispute with our suppliers.

Disclosure Required Under the Listing Rules

Except as disclosed in this prospectus, as of the Latest Practicable Date, we confirm that there were no circumstances that will give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

Distributable Reserves

Prior to the incorporation of our Company, we did not have any available distributable reserves. As of April 30, 2010, the Company had not been established.

Profit Forecast For The Year Ending December 31, 2010

The forecast of the combined profit attributable to the equity shareholders of our Company for the year ending December 31, 2010 prepared by the Directors is based on, in the absence of unforeseen circumstances, the combined financial information of our Group for the four months ended April 30, 2010 as set out in the Accountants' Report in Appendix I to this prospectus, the unaudited combined results of the Group for the two months ended June 30, 2010 and a forecast of the combined results of our Group for the remaining six months ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in Note 1 of section C of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

On the basis of the above profit forecast and on the assumption that our Company had been listed since January 1, 2010 and a total of 3,597,122,500 Shares were issued on January 1, 2010, the unaudited pro forma forecast earnings per Share will be not less than US$0.017 (equivalent to approximately HK$0.130), representing a pro forma price/earnings multiple of approximately 50.0 times and 58.3 times if the Offer Price is HK$6.48 and HK$7.56 per Share, respectively.

On a weighted average basis based on the above profit forecast and assuming that (i) our Company had been established and 3,597,122,500 Shares were issued and outstanding as at January 1, 2010, (ii) 597,122,500 Shares to be issued pursuant to the Global Offering, (iii) no exercise of Over-allotment Option and (iv) no options are granted under the Share Option Scheme, the forecast earnings per Share on a weighted average basis will be not less than US$0.017 (equivalent to approximately HK$0.130), representing a weighted average price/earnings multiple of approximately 50.0 times and 58.3 times if the Offer Price is HK$6.48 and HK$7.56 per Share, respectively.

Unaudited Pro Forma Adjusted Net Tangible Assets

The following unaudited pro forma statement of our adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set forth here to illustrate the effect of the Global Offering on our net tangible assets as of April 30, 2010 as if it had taken place on April 30, 2010.

The unaudited pro forma statement of adjusted net tangible assets have been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our combined net tangible assets as of April 30, 2010 or any future date following the Global Offering. It is prepared based on our combined net assets as of April 30, 2010 as derived from our combined financial information set forth in the "Accountants' Report" in Appendix I, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the Accountants' Report as set forth in Appendix I to this prospectus.

	Adjusted combined net tangible assets attributable to the equity shareholders of our Company as of April 30, 2010(1)	Add: Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted net tangible assets attributable to the equity shareholders of our Company	Unaudited pro forma adjusted combined net tangible assets per Share(3)	
	US$'000	US$'000	US$'000	US$	HK$
Based on an Offer Price of HK$6.48 per Offer Share .	51,289	477,239	528,528	0.15	1.14
Based on an Offer Price of HK$7.56 per Offer Share .	51,289	557,812	609,101	0.17	1.31

Notes:

(1) *The adjusted combined net tangible assets attributable to the equity shareholders of the Company as at April 30, 2010 have been extracted from the Accountants' Report as set out in Appendix I to this prospectus.*

(2) *The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$6.48 and HK$7.56 per Offer Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of any Shares which may be issued pursuant to any exercise of Over-allotment Option or the Share Option Scheme.*

(3) *The unaudited pro forma net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 3,597,122,500 Shares are in issue assuming that the Global Offering has been completed on April 30, 2010. No account has been taken of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the Share Option Scheme.*

(4) *The Group's property interests as at June 30, 2010 have been valued by American Appraisal China Limited, an independent property valuer, the relevant property valuation report is set out in Appendix IV to this prospectus, "Property Valuation". The revaluation surplus or deficit of these properties was not incorporated in the Group's combined financial information for the four months ended April 30, 2010 and will not be included in the Group's financial information for the year ending December 31, 2010. The above adjustments do not take into account the revaluation surplus attributable to the Group arising from the revaluation of the Group's property interests amounting to approximately US$7.9 million. If the revaluation surplus was recorded in the Group's financial statements, additional annual depreciation and amortisation of approximately US$0.2 million would be charged against profit for the year ending December 31, 2010.*

(5) *No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to April 30, 2010.*

(6) *The unaudited pro forma adjusted combined net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of US$1.00=HK$7.7637. No representation is made that the U.S. dollar amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate, or at any other rate or at all.*

No Material Adverse Change

The Directors confirm that there has been no material adverse change in our financial or trading position or our prospects since April 30, 2010, being the date of the latest audited combined financial results as set out in the Accountants' Report in Appendix I to this prospectus.

Property Interests

American Appraisal China Ltd., an independent property appraiser, has valued the property interests attributable to us, as of June 30, 2010 at approximately US$32.875 million. The text of its letter, summary of values and valuation certificates are set out in "Appendix IV – Property Valuation".

Property interests include the land use rights to the parcels of land and the building ownership rights of the completed buildings and structures.

Dividends

We will not declare or pay any dividends other than from profits and reserves lawfully available for distribution, including share premium. Our Shareholders may approve the distribution of dividends in a general meeting, but the amount may not exceed the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends or may also declare dividends half yearly or at other intervals at a fixed rate if they are of the opinion that the profits available for distribution justify the payment of such dividends.

We declared no dividends during the Track Record Period. The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on our Articles, the Cayman Companies Law, applicable laws and regulations and other relevant factors. Any future declarations of dividends may or may not reflect our Group's historical declarations of dividends and will be at the absolute discretion of our Directors.

Any dividends declared will be in Hong Kong dollars with respect to the Shares on a per share basis and our Company will pay such dividends in Hong Kong dollars. Our Directors believe that our dividend policy mentioned above will not have a material adverse effect on our working capital position.

We have not entered into any agreement under which future dividends are waived or agreed to be waived.

Reconciliation of Appraised Property Values with Net Book Values

Disclosure of the reconciliation between the valuation of the interests in properties attributable to the Group and such property interests in the Group's balance sheets as of April 30, 2010 contained in the Accountants' Report of Mongolian Mining Corporation is set forth below.

	USD
Net book value of property interests as of April 30, 2010	20,634,699
Movement from April 30, 2010 to June 30, 2010	
Add: Addition during the period	4,451,558
Less: Depreciation and amortization during the period	(146,553)
Net book value as of June 30, 2010	24,939,705
Valuation surplus	7,935,295
Valuation as of June 30, 2010	32,875,000

Disclaimer

We have not experienced any default or withdrawal or request for early repayment of bank borrowings, cancellation or orders, bankruptcy or default on the part of any customers and/or suppliers.